



Transcript Exhibit(s)

Docket #(s): N-01303A-09-0343  
SN-01303A-09-0343

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Exhibit #: See attached Exhibit list for  
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Part 3 of 4

Arizona Corporation Commission

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ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343  
AND DOCKET NO. SW-01303A-09-0343

SURREBUTTAL TESTIMONY  
ON COST OF CAPITAL

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 15, 2010



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**INTRODUCTION**

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my testimony is to comment on the proposed agreement between Arizona-American Water Company, Inc.'s ("AAWC" or "Company") rebuttal testimony on RUCO's recommended rate of return on invested capital (which includes RUCO's recommended capital structure, cost of long-term debt and cost of common equity) for the two water districts and three wastewater districts that AAWC is seeking rate increases for in this proceeding.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on March 8, 2010, I filed direct testimony with the Commission on the cost of capital issues in this case. I also filed, under separate cover, direct testimony on AAWC's request for an infrastructure improvement surcharge.

1 Q. Are you also filing surrebuttal testimony on the infrastructure improvement  
2 surcharge that the Company is requesting in this case?

3 A. Yes. I have also filed a separate piece of surrebuttal testimony on the  
4 infrastructure improvement surcharge issue.  
5

6 Q. How is your surrebuttal testimony on cost of capital organized?

7 A. My surrebuttal testimony contains five parts: the introduction that I have  
8 just presented; a summary of AAWC's rebuttal testimony; a section on  
9 capital structure; a section on the cost of debt; and, a section on the cost  
10 of equity capital.  
11

12 **SUMMARY OF AAWC's REBUTTAL TESTIMONY**

13 Q. Have you reviewed AAWC's rebuttal testimony?

14 A. Yes. I have reviewed the rebuttal testimony of Company witnesses,  
15 Thomas M. Broderick and Dr. Bente Villadsen, filed on March 22, 2009,  
16 which address the cost of capital issues in this case.  
17

18 Q. Please summarize the Company's rebuttal testimony.

19 A. Mr. Broderick's rebuttal testimony states that AAWC has accepted ACC  
20 Staff's recommended 7.2 percent weighted average cost of capital  
21 including ACC Staff's recommended capital structure, cost of short-term  
22 and long-term debt, and cost of common equity. In light of the fact that  
23 AAWC has abandoned her cost of capital recommendations, Dr. Villadsen

1 devotes her entire rebuttal testimony to my recommended cost of common  
2 equity. She states why she believes my recommended 9.50 percent cost  
3 of common equity is not reasonable and makes adjustments to the models  
4 that I have used in my cost of equity analysis.

5

6 **CAPITAL STRUCTURE**

7 Q. Please compare the capital structure recommendations of ACC Staff and  
8 RUCO.

9 A. A comparison of ACC Staff and RUCO's capital structures are as follows:

10

11 ACC Staff

12	Short & Long-Term Debt	61.14%
13	Common Equity	38.86%

14

15 RUCO

16	Short-Term Debt	13.29%
17	Long-Term Debt	47.56%
18	Common Equity	39.15%

19

20 As can be seen above there is very little difference between the capital  
21 structures being recommended by ACC Staff witness Juan C. Manrique  
22 and myself. Mr. Manrique's capital structure contains slightly less debt  
23 than the capital structure that I am recommending.

**COST OF DEBT**

Q. Have you made any changes to your recommended costs of short-term and long-term debt?

A. No, I have not.

Q. Please compare the costs of long-term debt being recommended by ACC Staff and RUCO for AAWC.

A. ACC Staff and RUCO are recommending the following:

ACC Staff

Short & Long-Term Debt	4.91%
------------------------	-------

RUCO

Short-Term Debt	3.91%
-----------------	-------

Long-Term Debt	5.47%
----------------	-------

Q. What is the difference between ACC Staff's recommended cost of debt and RUCO's recommended cost of debt?

A. As can be seen above ACC Staff's Mr. Manrique has elected to combine his recommended costs of short-term and long-term debt into a single weighted cost of debt of 4.91 percent.

1 Q. What would the weighted cost of RUCO's recommended costs of short-  
2 term and long-term be if you took the same approach as Mr. Manrique  
3 has?

4 A. RUCO's weighted cost of debt would be 5.02 percent, or eleven basis  
5 points higher than ACC Staff's weighted cost of debt, and would produce  
6 the same weighted average cost of capital that I am recommending in this  
7 case.

8  
9 **COST OF EQUITY CAPITAL**

10 Q. Have you made any changes to the 9.50 percent cost of common equity  
11 that you recommended in your direct testimony?

12 A. No.

13  
14 Q. What costs of equity capital are ACC Staff and RUCO recommending?

15 A. The costs of common equity presently being recommended by ACC Staff  
16 and RUCO are as follows:

17		
18	ACC Staff	10.70%
19	RUCO	9.50%

20  
21 Presently there is a 120 basis point difference between our respective  
22 recommended costs of common equity.

1 Q. What are the weighted average costs of capital ("WACC") presently being  
2 recommended by ACC Staff and RUCO?

3 A. The WACC presently being recommended by ACC Staff and RUCO are  
4 as follows:

6	ACC Staff	7.20%
7	RUCO	6.77%

8  
9 As can be seen above, there is a 43 basis point difference between Mr.  
10 Manrique's recommended WACC and my recommended WACC.

11  
12 Q. Has there been any recent activity in regard to interest rates?

13 A. Yes. On March 16, 2010, the Federal Reserve decided not to increase or  
14 decrease the federal funds rate and kept it between zero and 0.25  
15 percent. According to the minutes to the Federal Open Market  
16 Committee's meeting, the Fed affirmed its plan to keep interest rates  
17 "exceptionally low" for a long time as evidenced in this excerpt:

18  
19 The Committee will maintain the target range for the federal  
20 funds rate at 0 to ¼ percent and continues to anticipate that  
21 economic conditions, including low rates of resource utilization,  
22 subdued inflation trends, and stable inflation expectations, are  
23 likely to warrant exceptionally low levels of the federal funds rate  
24 for an extended period. To provide support to mortgage lending  
25 and housing markets and to improve overall conditions in private  
26 credit markets, the Federal Reserve has been purchasing \$1.25  
27 trillion of agency mortgage backed securities and about \$175  
28 billion of agency debt; those purchases are nearing completion,  
29 and the remaining transactions will be executed by the end of  
30 this month. The Committee will continue to monitor the economic  
31 outlook and financial developments and will employ its policy

1 tools as necessary to promote economic recovery and price  
2 stability.<sup>1</sup>  
3

4 The next FOMC meeting is scheduled for April 27, 2010.  
5

6 Q. Please address Dr. Villadsen's argument that your recommended 9.50  
7 percent cost of common equity is too low to attract investors during a  
8 period of turbulence in the financial markets.

9 A. I would say that my 9.50 percent return on common equity for AAWC  
10 looks very attractive to investors considering the fact that, as of January  
11 22, 2010, Value Line's analysts are projecting a long-term (i.e. the 2012-  
12 2014 time frame) 8.00 percent return on book common equity for the  
13 water utility industry as a whole. Value Line's long-term return on  
14 common equity for American Water Works, the parent company of AAWC,  
15 is 6.00 percent (Attachment E of my direct testimony). My recommended  
16 9.50 percent cost of common equity is 350 basis points higher than Value  
17 line's long-term projection for the Company's parent.  
18

19 Q. How do you respond to Dr. Villadsen's position that investors are more  
20 wary of water company stocks, which have been traditionally viewed as  
21 safe investments, during periods of financial uncertainty?

22 A. My response is that the investment community doesn't seem to view  
23 AAWC's parent in that light. As can be seen in Attachment A of my

---

<sup>1</sup> Minutes of the Federal Open Market Committee meeting held on March 16, 2010  
<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20100316.pdf>

1 testimony, American Water Work's stock price has experienced a definite  
2 upward trend over the past year. AAWC's parent company increased in  
3 value from \$17.33 per share on April 23, 2009, to 21.48 per share on April  
4 13, 2010 which is higher than Aqua America's price per share of \$17.97.  
5 If anything, there clearly appears to be a demand for American Water  
6 Works shares despite the recent economic climate.

7

8 Q. What is your opinion of Dr. Villadsen's argument that water utilities are  
9 riskier despite the fact that their betas are falling?

10 A. Dr. Villadsen has testified in prior cases that water utility stocks were  
11 riskier as evidenced by the fact that their betas, which measure a  
12 security's risk in relation to the market as a whole, were increasing. I fail  
13 to see how water utilities are riskier now, given the fact that their betas are  
14 falling, because lower betas indicate lower risk in relation to the market as  
15 a whole.

16

17 Q. Please address Dr. Villadsen's criticism that your DCF estimates of  
18 external growth are also biased downward.

19 A. Dr. Villadsen has taken issue with my calculation of "v" for the external  
20 growth rate estimate portion of the DCF's growth component. This  
21 calculation takes into consideration the fact that, while in theory a utility's  
22 stock price should move toward a market to book ratio of 1.0 if regulators  
23 authorize a rate of return that is equal to a utility's cost of capital, in reality

1 a utility will continue to issue shares of stock that are priced above book  
2 value.

3 As pointed out by Dr. Villadsen, I explained in my direct testimony that this  
4 same assumption was incorporated into the DCF analysis performed by  
5 Mr. Stephen Hill, ACC Staff's cost of cost of capital witness, in a prior  
6 Southwest Gas rate case proceeding.<sup>2</sup> Mr. Hill used the same methods  
7 that I have used in arriving at the inputs for his DCF model. His final  
8 recommendation for Southwest Gas Corporation, which was adopted by  
9 the Commission, was largely based on the results of his DCF analysis,  
10 which incorporated the same valid market-to-book ratio assumption that I  
11 have used consistently in cases before the Commission.

12  
13 Q. Please explain why a utility's stock will tend to move toward book value, or  
14 a market-to-book ratio of 1.0, if regulators allow a rate of return that is  
15 equal to the cost of capital of firms with similar risk.

16 A. As I stated in my direct testimony, the market value of a utility's stock will  
17 tend to move toward book value, or a market-to-book ratio of 1.0, if  
18 regulators allow a rate of return that is equal to the cost of capital of firms  
19 with similar risk. This premise is recognized among practitioners who  
20 have testified in cost of capital proceedings<sup>3</sup>.

---

<sup>2</sup> Docket No. G-01551A-04-0876

<sup>3</sup> Carleton, Willard T. and Morin, Roger A.

1 Despite Dr. Villadsen's criticism of my DCF methodology in her rebuttal  
2 testimony, I believe that a utility's market price should equal its book price  
3 over the long run if regulators allow a rate of return that is equal to the  
4 utility's cost of capital. That is assuming that the utility's rate of return  
5 ("ROR") is comparable to the rates of return of other firms in the same risk  
6 class. I believe that a better explanation of this concept is one that I have  
7 used in the past and assumes that if a hypothetical utility's book price is  
8 \$20.00 per share and regulators adopt a rate of return that is equal to the  
9 utility's cost of capital of 10.00 percent, the utility will earn \$2.00 per share  
10 ("EPS"). With earnings of \$2.00 per share, and a market required rate of  
11 return on equity of 10.00 percent, for firms in the utility's risk class, the  
12 market price of the utility's stock will set at \$20.00 per share ( $\$2.00 \text{ EPS} \div$   
13  $10.00\% \text{ ROR} = \$20.00 \text{ per share price}$ ). If the utility records earnings that  
14 are higher than the earnings of other firms with similar risk, the market  
15 value of the utility's shares will increase accordingly ( $\$2.50 \text{ EPS} \div 10.00\%$   
16  $\text{ROR} = \$25.00 \text{ per share}$ ). On the other hand, if the utility posts lower  
17 earnings, the stock's market price will fall below book value ( $\$1.50 \text{ EPS} \div$   
18  $10.00\% \text{ ROR} = \$15.00 \text{ per share}$ ).

19 Because of economic forces beyond the control of regulators, it is not  
20 reasonable to assume that the utility will have earnings that match those  
21 of firms of similar risk in every year of operation. In some years, earnings  
22 may drop causing the market-to-book ratio to fall below 1.0, while in other  
23 years the utility may have earnings that exceed those of other firms in its

1 risk classification. However, over the long run the utility's earnings should  
2 average out to the earnings that are expected based on its level of risk.  
3 These average earnings over time will result in a market-to-book ratio of  
4 1.0. A 1.0 ratio may never be achieved in practice and many investors  
5 may not even care what the market-to-book ratio is as long as they  
6 receive their required rate of return.

7  
8 Q. Are there any other reasons why your market-to-book ratio calculation that  
9 is valid?

10 A. Yes. Each of the other utilities included in my sample, are engaged in  
11 unregulated activities to some degree. Because it is difficult to obtain a  
12 sample comprised only of "pure play" utilities, the calculation that I have  
13 employed in my DCF model helps to eliminate the impact that those  
14 unregulated operating segments would have on the market-to-book ratio  
15 of the utilities included in my sample.

16  
17 Q. Please respond to Dr. Villadsen's argument that your overall CAPM  
18 results are below the current yields on Baa/BBB debt instruments.

19 A. I am not recommending that the Commission adopt my CAPM results. I  
20 am recommending a cost of common equity of 9.50 percent which is 315  
21 to 359 basis points over the most recent yields of 6.35 percent to 5.91  
22 percent for Baa/BBB-rated and A-rated utility bonds respectively  
23 (Attachment B).

1 Q. Is Dr. Villadsen correct in her assertion that you did not use the  
2 appropriate proxy for a risk-free rate in your CAPM model?

3 A. No. Despite Dr. Villadsen's assertion, I have used an appropriate  
4 Treasury instrument to calculate the risk premium in my CAPM model for  
5 regulatory purposes. As I have stated in my direct testimony, the life of a  
6 5-year treasury instrument closely matches the three to five year time  
7 frame in which utilities, such as AAWC, apply for rates.

8  
9 Q. Please address Dr. Villadsen's argument regarding your reliance on  
10 geometric means in your CAPM analyses.

11 A. As I stated in my direct testimony there is an on-going debate over which  
12 is the better average to rely on. However, it is important to recognize that  
13 the information on both means, published by Morningstar, is widely  
14 available to the investment community. For this reason alone I believe  
15 that the use of both means in a CAPM analysis is appropriate.

16  
17 Q. Has the Commission authorized rates of return that were derived through  
18 the use of both arithmetic and geometric means in prior decisions?

19 A. Yes, a case that specifically comes to mind involved UNS Gas Inc., in  
20 which Decision No. 70011, dated November 27, 2007, stated the  
21 following:

22 "We agree with the Staff and RUCO witnesses that it is appropriate  
23 to consider the geometric returns in calculating a comparable  
24 company CAPM because to do otherwise would fail to give  
25

1 recognition to the fact that many investors have access to such  
2 information for purposes of making investment decisions.”  
3

4 In the UNS Gas, Inc. case, the ACC Staff witness was Mr. David C.  
5 Parcell who, as I do, consistently relies on both arithmetic and geometric  
6 means in our CAPM analyses. Also, when he testified in the Arizona  
7 Water case, Mr. Parcell, Staff’s expert, acknowledged that he uses both  
8 geometric and arithmetic means in his testimony and did so in this case.<sup>4</sup>  
9 Mr. Parcell further testified that Value Line calculates both historic and  
10 prospective growth rates on a geometric or compound growth rate basis.<sup>5</sup>  
11 He further testified that because investors, the Securities & Exchange  
12 Commission and this Commission use arithmetic and geometric means,  
13 analysts developing cost of capital should too.<sup>6</sup>  
14

15 Q. Please respond further to Dr. Villadsen’s criticism of your reliance on  
16 geometric means in the CAPM model.

17 A. The best argument in favor of the geometric mean is that it provides a  
18 truer picture of the effects of compounding on the value of an investment  
19 when return variability exists. This is particularly relevant in the case of  
20 the return on the stock market, which has had its share of ups and downs  
21 over the 1926 to 2008 observation period used in my CAPM analysis.  
22

---

<sup>4</sup> T: 1345-46

<sup>5</sup> Id.

<sup>6</sup> Id.

1 Q. Can you provide an example to illustrate the differences between the two  
2 averages?

3 A. Yes. The following example may help. Suppose you invest \$100 and  
4 realize a 20.0 percent return over the course of a year. So at the end of  
5 year 1, your original \$100 investment is now worth \$120. Now let's say  
6 that over the course of a second year you are not as fortunate and the  
7 value of your investment falls by 20.0 percent. As a result of this, the  
8 \$120 value of your original \$100 investment falls to \$96. An arithmetic  
9 mean of the return on your investment over the two-year period is zero  
10 percent calculated as follows:

11  
12 
$$(\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} =$$

13 
$$(20.0\% + -20.0\%) \div 2 =$$

14 
$$(0.0\%) \div 2 = \underline{0.0\%}$$

15  
16 The arithmetic mean calculated above would lead you to believe that you  
17 didn't gain or lose anything over the two-year investment period and that  
18 your original \$100 investment is still worth \$100. But in reality, your  
19 original \$100 investment is only worth \$96. A geometric mean on the  
20 other hand calculates a compound return of negative 2.02 percent as  
21 follows:

22  
23 
$$(\text{year 2 value} \div \text{original value})^{1/\text{number of periods}} - 1 =$$

1                                     $( \$96 \div \$100 )^{1/2} - 1 =$

2                                     $( 0.96 )^{1/2} - 1 =$

3                                     $( 0.9798 ) - 1 =$

4                                     $-0.0202 = \underline{-2.02\%}$

5  
6        The geometric mean calculation illustrated above provides a truer picture  
7        of what happened to your original \$100 over the two-year investment  
8        period.

9        As can be seen in the preceding example, in a situation where return  
10       variability exists, a geometric mean will always be lower than an arithmetic  
11       mean, which probably explains why utility consultants typically put up a  
12       strenuous argument against the use of a geometric mean.

13  
14    Q.    Can you cite any other evidence that supports your use of both a  
15       geometric and an arithmetic mean?

16    A.    Yes. In the third edition of their book, Valuation: Measuring and Managing  
17       the Value of Companies, authors Tom Copeland, Tim Koller and Jack  
18       Murrin ("CKM") make the point that, while the arithmetic mean has been  
19       regarded as being more forward-looking in determining market risk  
20       premiums, a true market risk premium may lie somewhere between the  
21       arithmetic and geometric averages published in Morningstar's SBBI  
22       yearbook.

1 Q. Please explain.

2 A. In order to believe that the results produced by the arithmetic mean are  
3 appropriate, you have to believe that each return possibility included in the  
4 calculation is an independent draw. However, research conducted by  
5 CKM demonstrates that year-to-year returns are not independent and are  
6 actually auto correlated (i.e. a relationship that exists between two or more  
7 returns, such that when one return changes, the other, or others, also  
8 change), meaning that the arithmetic mean has less credence. CKM also  
9 explains two other factors that would make the Morningstar arithmetic  
10 mean too high. The first factor deals with the holding period. The  
11 arithmetic mean depends on the length of the holding period and there is  
12 no "law" that says that holding periods of one year are the "correct"  
13 measure. When longer periods (e.g. 2 years, 3 years etc.) are observed,  
14 the arithmetic mean drops about 100 basis points. The second factor  
15 deals with a situation known as survivor bias. According to CKM, this is a  
16 well-documented problem with the Morningstar historical return series in  
17 that it only measures the returns of successful firms. That is, those firms  
18 that are listed on stock exchanges. The Morningstar historical return  
19 series does not measure the failures, of which there are many. Therefore,  
20 the return expectations in the future are likely to be lower than the  
21 Morningstar historical averages. After conducting their analysis, CKM  
22 conclude that 4.0 percent to 5.5 percent is a reasonable forward-looking  
23 market risk premium. Adding my 2.43 percent risk free yield on a 5-year

1 Treasury instrument to these two estimates indicates a cost of equity of  
2 6.43 percent to 7.93 percent. My recommended cost of equity of 9.50  
3 percent falls above. Given the fact that utilities generally exhibit less risk  
4 than industrials, a return in the low end of this range could be considered  
5 reasonable. My recommended cost of common equity of 9.50 percent is  
6 305 basis points higher the low end of the range.

7

8 Q. Does your silence on any of the issues or positions addressed in the  
9 rebuttal testimony of Mr. Broderick, Dr. Villadsen or any of the Company's  
10 other witnesses constitute acceptance?

11 A. No, it does not.

12

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes, it does.

# **ATTACHMENT A**

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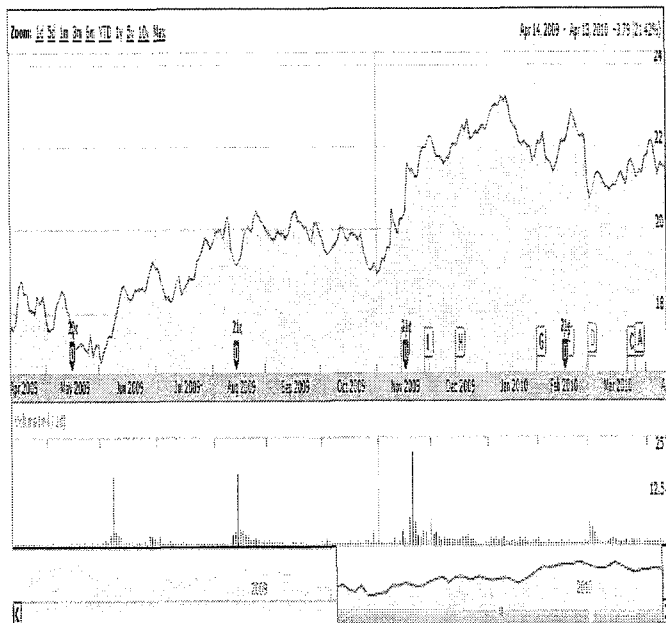
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<a href="#">Dow</a>	11,019.42	0.12%
<a href="#">S&amp;P 500</a>	1,197.30	0.07%
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## Key stats and ratios

	Q4 (Dec '09)	2009
Net profit margin	6.08%	-9.55%
Operating margin	22.98%	7.11%

			Val	
	<u>Company name</u>	<u>Price</u>	<u>Change</u>	<u>Chg</u>
<b>AWK</b>	<b><u>American Water Works C...</u></b>	21.48	-0.07	-0.3%
<b>SWWC</b>	<b><u>SouthWest Water Company</u></b>	10.48	0.00	0.0%
<b>WTR</b>	<b><u>Aqua America, Inc.</u></b>	17.97	+0.09	0.5%
<b>AWR</b>	<b><u>American States Water Co.</u></b>	37.04	0.00	0.0%
<b>CWT</b>	<b><u>California Water Servi...</u></b>	38.51	+0.52	1.3%
<b>ARTNA</b>	<b><u>Artesian Resources Corp.</u></b>	17.67	+0.04	0.2%
<b>SJW</b>	<b><u>SJW Corp.</u></b>	27.27	+0.41	1.5%
<b>MSEX</b>	<b><u>Middlesex Water Company</u></b>	17.44	+0.15	0.8%
<b>CTWS</b>	<b><u>Connecticut Water Serv...</u></b>	23.15	+0.20	0.8%
<b>YORW</b>	<b><u>The York Water Company</u></b>	13.96	+0.13	0.9%
<b>CDZI</b>	<b><u>Cadiz Inc.</u></b>	12.53	+0.09	0.7%

Sector: [Utilities](#) > Industry: [Water Utilities](#)

**American Water Works Co., Inc. discussions** [View all discussions »](#)

#### Description

American Water Works Company, Inc. is a water and wastewater utility company. The Company provides approximately 16 million people with drinking water, wastewater and other water-related services in 35 states and two Canadian provinces. It operates in two segments: Regulated Businesses and Non-Regulated Businesses segments. During the year ended December 31, 2009, the Company's Regulated Businesses accounted for 90.4% of its total operating revenue. During 2009, its Non-Regulated Businesses accounted for 10.6% of the Company's total operating revenue. In December 2009, the Company acquired Environmental Management Corporation (EMC). During 2009, the Company closed on seven acquisitions (six regulated water and wastewater systems, and one in its non-regulated segment).

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#### Officers and directors

<a href="#">George MacKenzie</a>	Chairman of the Board
<a href="#">Donald L. Correll</a>	President, Chief Executive Officer, Director
<a href="#">Ellen C. Wolf</a>	Chief Financial Officer, Senior Vice President
<a href="#">Walter J. Lynch</a>	President, Chief Operating Officer - Regulated Operations
<a href="#">Mark F. Strauss</a>	President of American Water Enterprises
<a href="#">Kathy L. Pape</a>	President, Pennsylvania American Water
<a href="#">John R.</a>	President, New Jersey American Water

EBITD margin	-	17.88%
Return on average assets	1.09%	-1.75%
Return on average equity	3.65%	-5.75%
Employees	7,700	-
Carbon Disclosure Rating	-	-

[Screen stocks with similar metrics »](#)

#### Address

1025 Laurel Oak Road  
Voorhees, NJ 08043  
United States - [Map](#)  
+1-856-3468200 (Phone)  
+1-856-3468360 (Fax)

#### Website links

Company website:  
<http://www.amwater.com>

[News Releases](#)

[Investor Relations](#)

[Financial Information](#)

[Corporate History/Profile](#)

[Executives](#)

[Products/Services](#)

[Employment Opportunities](#)

#### External links

[Analyst Estimates](#) - MarketWatch

[SEC Filings](#) - EDGAR Online

[Major Holders](#) - MSN Money

[Options](#) - Morningstar

[Research Reports](#) - Yahoo Finance

[Annual Report \(PDF\)](#) - AnnualReports.com

Bigelow

Kellye L.

Senior Vice President, General

Walker

Counsel, Secretary

Sean Burke

Senior Vice President - Human  
Resources

Laura L.

Senior Vice President - Corporate

Monica

Communications and External Affairs

Full list on Reuters »

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Information is provided 'as is' and solely for informational purposes, not for trading purposes or advice, and may be delayed.

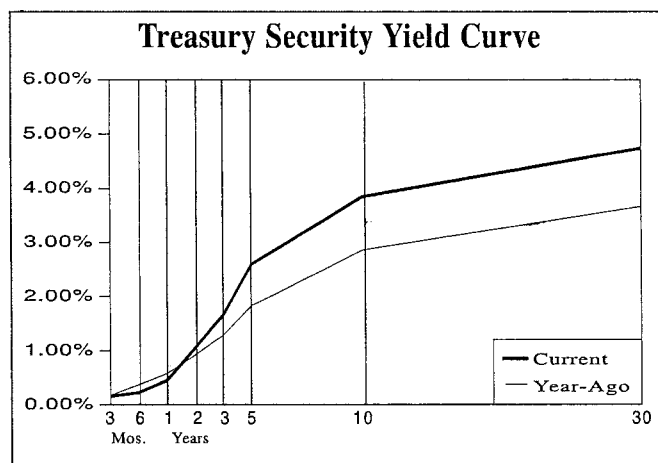
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## **ATTACHMENT B**

## Selected Yields

	Recent (4/07/10)	3 Months Ago (1/06/10)	Year Ago (4/08/09)		Recent (4/07/10)	3 Months Ago (1/06/10)	Year Ago (4/08/09)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.50	0.50	GNMA 6.5%	2.66	3.70	3.40
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 6.5% (Gold)	1.96	2.72	2.79
Prime Rate	3.25	3.25	3.25	FNMA 6.5%	2.25	2.81	2.79
30-day CP (A1/P1)	0.18	0.14	0.33	FNMA ARM	2.76	3.24	3.15
3-month LIBOR	0.30	0.25	1.14	Corporate Bonds			
Bank CDs				Financial (10-year) A	5.24	5.60	7.85
6-month	0.25	0.29	0.83	Industrial (25/30-year) A	5.76	5.83	6.27
1-year	0.44	0.54	1.04	Utility (25/30-year) A	5.91	5.86	6.20
5-year	1.99	2.02	2.05	Utility (25/30-year) Baa/BBB	6.35	6.50	7.63
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.16	0.05	0.18	Canada	3.63	3.62	2.90
6-month	0.23	0.14	0.37	Germany	3.12	3.38	3.21
1-year	0.45	0.36	0.58	Japan	1.41	1.34	1.46
5-year	2.60	2.59	1.83	United Kingdom	4.06	4.05	3.35
10-year	3.85	3.82	2.86	Preferred Stocks			
10-year (inflation-protected)	1.52	1.37	1.53	Utility A	6.00	5.94	6.35
30-year	4.74	4.69	3.67	Financial A	6.63	6.80	7.80
30-year Zero	5.00	4.88	3.67	Financial Adjustable A	5.48	5.48	5.48



### TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	4.44	4.25	4.95
25-Bond Index (Revs)	4.94	4.95	5.75
General Obligation Bonds (GOs)			
1-year Aaa	0.38	0.28	0.47
1-year A	1.18	1.25	1.20
5-year Aaa	1.86	1.68	2.03
5-year A	2.81	2.79	3.45
10-year Aaa	3.31	3.29	3.20
10-year A	4.29	4.20	4.75
25/30-year Aaa	4.46	4.47	4.77
25/30-year A	5.51	5.41	6.25
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.78	4.83	6.30
Electric AA	4.79	4.74	6.40
Housing AA	5.73	5.76	6.70
Hospital AA	5.19	5.04	6.65
Toll Road Aaa	4.78	4.80	6.45

## Federal Reserve Data

### BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/24/10	3/10/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1103635	1163154	-59519	1100918	1055784	925591
Borrowed Reserves	88326	101275	-12949	124739	184163	314469
Net Free/Borrowed Reserves	1015309	1061879	-46570	976179	871620	611121

### MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	3/22/10	3/15/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1716.1	1708.2	7.9	4.9%	7.3%	9.9%
M2 (M1+savings+small time deposits)	8480.1	8490.1	-10.0	-2.4%	0.4%	0.9%

# Improved Estimates of the National Income and Product Accounts

## Results of the 2009 Comprehensive Revision

By Eugene P. Seskin and Shelly Smith

ON JULY 31, 2009, the Bureau of Economic Analysis (BEA) released the initial results from the 13<sup>th</sup> comprehensive revision of the national income and product accounts (NIPAs), beginning with revised estimates for 1929; the results of the last comprehensive revision were released in December 2003.

In many important respects, the picture of the economy shown by the revised estimates is similar to the picture shown by the previously published estimates. The similarities and some of the differences in detail can be seen in the following:

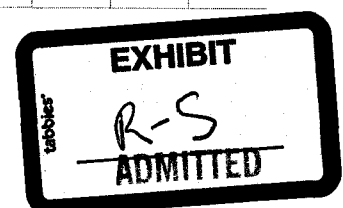
- The long-run growth rates of real gross domestic product (GDP) are similar to those in the previously published estimates. For 1929–2008, the average annual growth rate of real GDP is 3.4 percent, 0.1 percentage point higher than in the previously published estimates. For the more recent period, 1997–2008, the growth rate is 2.8 percent, also 0.1 percentage point higher than in the previously published estimates (table 1).
- The current recession is steeper than previously estimated. From the fourth quarter of 2007 to the first quarter of 2009, real GDP decreases 2.8 percent at an average annual rate; in the previously published estimates, it had decreased 1.8 percent.
- The revised estimate of real GDP for 2008 increases 0.4 percent; the previously published estimate of real GDP had increased 1.1 percent.
- The average rate of change in the prices paid by U.S. residents for 1997–2008 is the same as in the previously published estimates (2.4 percent).
- Upward revisions to disposable personal income (DPI) beginning with 1994 are larger than upward revisions to personal outlays, resulting in upward revisions to personal saving and to the personal saving rate (personal saving as a percentage of DPI) (table 2).

The revised estimates incorporate a number of changes in classifications and definitions as well as statistical improvements that are designed to better measure the ever-changing U.S. economy. These improvements were previewed in a series of articles in the SURVEY OF CURRENT BUSINESS.

Alyssa E. Holdren contributed to this article.

**Table 1. Real Gross Domestic Product**  
[Percent change from preceding year]

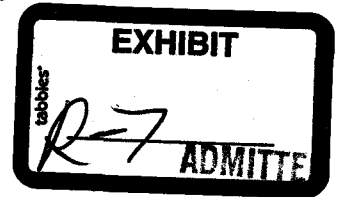
Year	Revised	Previously published	Revision
1930.....	-8.6	-8.6	0.0
1931.....	-6.5	-6.4	-0.1
1932.....	-13.1	-13.0	-0.1
1933.....	-1.3	-1.3	0.0
1934.....	10.9	10.8	0.1
1935.....	8.9	8.9	0.0
1936.....	13.0	13.0	0.0
1937.....	5.1	5.1	0.0
1938.....	-3.4	-3.4	0.0
1939.....	8.1	8.1	0.0
1940.....	8.8	8.8	0.0
1941.....	17.1	17.1	0.0
1942.....	18.5	18.5	0.0
1943.....	16.4	16.4	0.0
1944.....	8.1	8.1	0.0
1945.....	-1.1	-1.1	0.0
1946.....	-10.9	-11.0	0.1
1947.....	-0.9	-0.9	0.0
1948.....	4.4	4.4	0.0
1949.....	-0.5	-0.5	0.0
1950.....	8.7	8.7	0.0
1951.....	7.7	7.7	0.0
1952.....	3.8	3.8	0.0
1953.....	4.6	4.6	0.0
1954.....	-0.6	-0.7	0.1
1955.....	7.2	7.1	0.1
1956.....	2.0	1.9	0.1
1957.....	2.0	2.0	0.0
1958.....	-0.9	-1.0	0.1
1959.....	7.2	7.1	0.1
1960.....	2.5	2.5	0.0
1961.....	2.3	2.3	0.0
1962.....	6.1	6.1	0.0
1963.....	4.4	4.4	0.0
1964.....	5.8	5.8	0.0
1965.....	6.4	6.4	0.0
1966.....	6.5	6.5	0.0
1967.....	2.5	2.5	0.0
1968.....	4.8	4.8	0.0
1969.....	3.1	3.1	0.0
1970.....	0.2	0.2	0.0
1971.....	3.4	3.4	0.0
1972.....	5.3	5.3	0.0
1973.....	5.8	5.8	0.0
1974.....	-0.6	-0.5	-0.1
1975.....	-0.2	-0.2	0.0
1976.....	5.4	5.3	0.1
1977.....	4.6	4.6	0.0
1978.....	5.6	5.6	0.0
1979.....	3.1	3.2	-0.1
1980.....	-0.3	-0.2	-0.1
1981.....	2.5	2.5	0.0
1982.....	-1.9	-1.9	0.0
1983.....	4.5	4.5	0.0
1984.....	7.2	7.2	0.0
1985.....	4.1	4.1	0.0
1986.....	3.5	3.5	0.0
1987.....	3.2	3.4	-0.2
1988.....	4.1	4.1	0.0
1989.....	3.6	3.5	0.1
1990.....	1.9	1.9	0.0
1991.....	-0.2	-0.2	0.0
1992.....	3.4	3.3	0.1
1993.....	2.9	2.7	0.2
1994.....	4.1	4.0	0.1
1995.....	2.5	2.5	0.0
1996.....	3.7	3.7	0.0
1997.....	4.5	4.5	0.0
1998.....	4.4	4.2	0.2
1999.....	4.8	4.5	0.3
2000.....	4.1	3.7	0.4
2001.....	1.1	0.8	0.3
2002.....	1.8	1.6	0.2
2003.....	2.5	2.5	0.0
2004.....	3.6	3.6	0.0
2005.....	3.1	2.9	0.2
2006.....	2.7	2.8	-0.1
2007.....	2.1	2.0	0.1
2008.....	0.4	1.1	-0.7



**Sun City Well No. 5.1 As Percent of Total Plant in Service  
For AAWC Districts Included in the Current Rate Case**



<u>Description</u>	<u>Amount</u>	<u>Item</u>
Gross Utility Plant in Service		
Water Districts in the Current AAWC Case	\$ 149,301,020	A
Wastewater Districts in the Current AAWC Case	\$ 191,762,219	
Combined Gross Utility Plant in Service	<u>\$ 341,063,239</u>	B
AAWC Proposed Post-Test Year Additions to Plant - Well 5.1 - Sun City Water	<u>\$ 1,587,149</u>	C
Percent of Combined Water Plant	<u>1.06%</u>	C/A
Percent of Combined Water and Sewer Plant	<u>0.47%</u>	C/B
<u>Notes and Source</u>		
AAWC Filing, Schedule B-1		



**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-60

**Q:** AzAWC pension and OPEB expense.

- a. Provide the amount of actual expense AzAWC recorded for pensions each year from 2004 through 2009.
- b. Provide the amount of actual expense AzAWC recorded for OPEBs each year from 2004 through 2009.
- c. Provide the amount of actual AWWSC charges to AzAWC for OPEBs each year from 2004 through 2009.
- d. Has any examination ever been conducted regarding whether and how AzAWC's funding for pensions and OPEBs has minimized costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.
- e. Has AzAWC ever examined converting its defined benefit pension plan to some other type of retirement benefit in order to help control costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

**A:**

a. Pension

2004	2005	2006	2007	2008
\$146,893	\$317,798	\$1,013,141	\$903,222	\$1,734,561

b. OPEBs

2004	2005	2006	2007	2008
\$73,823	\$63,196	\$74,032	\$62,603	\$75,723

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-128

---

**Q:** Please provide a detailed comparison of the actuarial assumptions used in determining the Company's Pensions expense for 2007, 2008 and projected in 2009 in the Company's filing. This should include a comparison of the discount rate assumption, long-term rate of return assumption, and salary and wage increase projections incorporated in the actuarial calculations.

**A:**

Component	2007	2008	2009
AZ Pension Expense	\$ 877,162	\$ 1,734,561	\$ 2,090,000
Total AW Postretirement Cost	\$38,968,697	\$39,625,996	\$81,116,478
Discount Rate Assumption	5.90%	6.27%	6.12%
Return on Assets	8.00%	7.90%	7.90%
Salary and Wage Increase	4.25%	4.25%	4.00%

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-129

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**Q:** Provide a breakdown of the 2007, 2008 and 2009 Pensions expense, showing each component of the calculated expense separately.  
Please provide a copy of the 2006, 2007, 2008 and 2009 actuarial studies for Pensions.

**A:** The breakdown of the 2007, 2008, and 2009 Pensions expense is attached and labeled "RUCO 2-129 Pension Expense 2007-2009.pdf"

Copies of the actuarial studies for 2006, 2007, 2008 and 2009 are attached as "RUCO 2-129 AW Pension Plan Report (FY 12-31-06).pdf", "RUCO 2-129 AW Pension Plan Report (FY 12-31-07).pdf", "RUCO 2-129 AW Pension Plan Report (FY 12-31-08).pdf", and "RUCO 2-52 AW Pension Plan Report (FY 12-31-09).pdf".

SI-4

## Pension Cost

	Fiscal 2007 <sup>(1)</sup>	Fiscal 2006
<b>Pension Cost</b>		
Service cost	\$ 25,214,558	\$ 21,951,921
Interest cost	51,613,587	43,630,659
Expected return on assets	(47,052,194)	(37,881,728)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	637,931	556,199
▶ Net loss (gain)	<u>8,554,815</u>	<u>12,070,909</u>
Pension cost	\$ 38,968,697	\$ 40,327,960
Percent of covered pay <sup>(2)</sup>	13.5%	16.7%
Per active participant <sup>(3)</sup>	\$ 7,700	\$ 8,836

## Change in Pension Cost

Pension cost for fiscal 2006	\$ 40,327,960
Change from fiscal 2006 to fiscal 2007:	
▶ Expected based on prior valuation	(3,311,116)
▶ Loss (gain) from noninvestment experience	2,363,761
▶ Loss (gain) from asset experience	(2,251,203)
▶ Assumption changes	(1,811,472)
▶ Merger of Elizabethtown	3,650,767
▶ Plan amendments	<u>0</u>
Pension cost for fiscal 2007	\$ 38,968,697

- (1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.
- (2) For Fiscal 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 as of January 1, 2006 and American Water covered compensation of \$266,216,479 as of July 1, 2006).
- (3) For Fiscal 2007, the number of active participants is based on the most recent valuation data received from the client (Elizabethtown had 316 active participants as of January 1, 2006 and American Water had 4,745 active participants as of July 1, 2006).

SI-4

## Pension Cost

	Fiscal 2008 <sup>(1)</sup>	Fiscal 2007 <sup>(1)</sup>
<b>Pension Cost</b>		
Service cost	\$ 25,892,330	\$ 25,214,558
Interest cost	56,675,301	51,613,587
Expected return on assets	(51,701,245)	(47,052,194)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	707,521	637,931
▶ Net loss (gain)	<u>8,052,089</u>	<u>8,554,815</u>
Pension cost	\$ 39,625,996	\$ 38,968,697
Percent of covered pay <sup>(2)</sup>	13.4%	13.5%
Per active participant <sup>(3)</sup>	\$ 7,842	\$ 7,700

### Change in Pension Cost

Pension cost for fiscal 2007	\$ 38,968,697
Change from fiscal 2007 to fiscal 2008:	
▶ Expected based on prior valuation	(2,555,740)
▶ Loss (gain) from noninvestment experience	6,511,120
▶ Loss (gain) from asset experience	3,105,575
▶ Assumption changes	(6,565,802)
▶ Plan amendments	<u>162,146</u>
Pension cost for fiscal 2008	\$ 39,625,996

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) For Fiscal 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 as of January 1, 2006 and American Water covered compensation of \$266,216,479 as of July 1, 2006).

(3) For Fiscal 2007, the number of active participants is based on the most recent valuation data received from the client (Elizabethtown had 316 active participants as of January 1, 2006 and American Water had 4,745 active participants as of July 1, 2006).

SI-3

## Pension Cost

	Fiscal 2009	Fiscal 2008
<b>Pension Cost</b>		
Service cost	\$ 28,170,353	\$ 25,892,330
Interest cost	61,493,551	56,675,301
Expected return on assets	(42,224,081)	(51,701,245)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	707,521	707,521
▶ Net loss (gain)	<u>32,969,134</u>	<u>8,052,089</u>
Pension cost	\$ 81,116,478	\$ 39,625,996
Percent of covered pay	26.1%	13.4%
Per active participant	\$ 16,626	\$ 7,842

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-130

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**Q:** For each year since 2005, provide the amount of Pensions included in the Company's operating expenses, showing any amounts allocated or charged direct by the Service Company separately.

**A:** The Pension amounts charged to operating expenses since 2005 are detailed below:

District	2006	2007	2008
Sun City Water	\$123,880	\$108,781	\$252,131
Sun City Wastewater	74,521	71,288	155,883
Sun City West Wastewater	71,870	56,724	131,903
Anthem/Agua Fria Wastewater	94,000	118,522	255,252
Anthem Water	106,806	82,672	193,456

For Service Company amounts allocated to Arizona-American, please see response to data request number RUCO 2-59a.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-127

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**Q:** Please provide the estimated Pensions costs prepared by the Company's independent actuary, including the workpapers, assumptions, and analyses relied upon in the development of those estimates.

**A:** A copy of the actuarial study for the 2009 plan year containing assumptions and analyses have been provided in response to data request number RUCO 2-52.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-131

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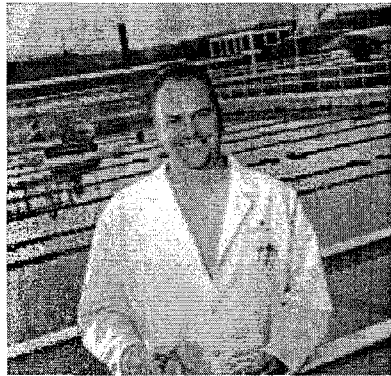
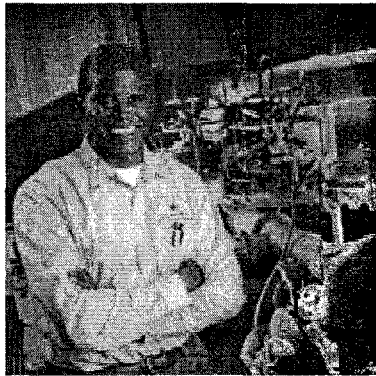
**Q:** For each year since 2006, provide the amount of the cash contribution by the Company for Pensions.

**A:** The cash contribution for pensions since 2006 is shown below.

2007	2008	2009
\$1,035,197	\$1,712,512	\$2,090,643

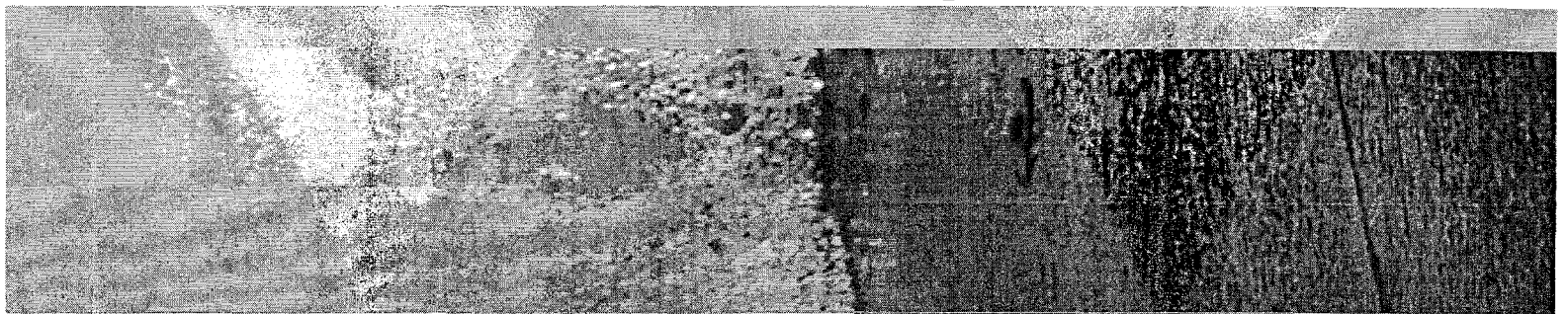


# solutions



**2009 ANNUAL REPORT**

[www.amwater.com](http://www.amwater.com)



## DEAR FELLOW STOCKHOLDER,

Two years after our initial public offering on the New York Stock Exchange, I am delighted to be writing to you from a fully independent American Water. It has taken four years and the hard work and dedication of a great number of individuals to successfully plan and execute the divestiture. I take this opportunity to thank you for your patience and support.

As we looked around at financial instability and unrest across the country's corporate landscape in 2009, we at American Water felt truly fortunate to be a part of a stable and growing company. While we have naturally seen some of the effects of the economic downturn, we have also been able to stay strong and focused. We have also continued to educate customers and key influencers about the water industry and the solutions we provide every day to help ensure high-quality and reliable water service for the approximately 16 million people we serve.

American Water's stock price performed well in 2009, in spite of a divestiture of 96.75 million shares of stock sold in three public offerings by a single stockholder, the last of which brought us to our now independent status. Since our IPO in April 2008, our stock out-performed the S&P 500, the Dow Jones Industrial Average and our water industry peers. That performance has continued since we completed the divestiture.

In 2009 we continued to deliver on our core strategies and provided innovative, efficient and powerful solutions to our communities, customers and business partners. By focusing on our core strategies, we saw an increase in revenues to \$2.4 billion and, excluding a goodwill impairment charge, an increase in earnings per share and net income. We also invested nearly \$800 million in our infrastructure to help ensure the reliability of the service we provide and we further strengthened the health of our company by efficiently raising both debt and equity.

We reached out to municipalities around the country facing financial, operational and resource-related challenges, and offered a wide variety of solutions to help improve their communities.

We continued to take action and participate in solutions to benefit our environment. In 2006, we were the first water utility to join the U.S. Environmental Protection Agency's (USEPA) Climate Leaders program. In 2009, the USEPA accepted our goal to reduce greenhouse gas emissions by more than 15 percent in less than ten years through our ongoing voluntary partnership. You can read more about our environmental sustainability initiatives in our corporate responsibility brochure, which is included with this printed annual report. We also have preliminary data on our performance at [www.amwater.com/corporateresponsibility](http://www.amwater.com/corporateresponsibility) and will publish our first full corporate responsibility report in 2011.

In California, we completed the Fillmore Water Recycling Plant in partnership with the City of Fillmore. The plant is a solution built for the times—a zero-discharge wastewater treatment plant that makes the most out of every drop of water it treats. The plant is highly efficient by design, as was the public-private partnership that helped to deliver the project on time and on budget, saving the city millions of dollars on the overall project.

We acquired Environmental Management Corporation (EMC), a Missouri-based company and leading innovator in total water cycle optimization. With EMC adding to our existing team of innovators, we are now able to provide solutions to a wide variety of clients in 35 U.S. states and two Canadian provinces.

The U.S. Department of Defense continues to recognize American Water as a powerful solutions provider by awarding the Company military base water and wastewater systems contracts. After earning several major contracts over the last two years, we now proudly serve approximately 400,000 servicemen and women, their families, and support staff on bases in nine states.

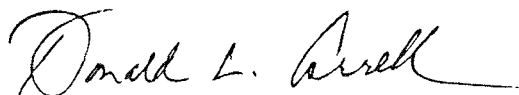
Others also took notice of American Water's track record of success, and that led to several awards, including a very special honor: In April, we were named "Global Water Company of the Year" by Global Water Intelligence for our leadership role in providing solutions to water challenges.

Even this letter is part of an American Water solution. The Company's use of Notice and Access to post our proxy materials and annual report on Form 10-K online instead of sending out paper copies of those materials to all of our stockholders was so successful at helping us conserve natural resources last year, we're doing it again. We also chose last year to create an online annual report instead of printing a traditional glossy annual report, and we're taking this environmentally friendly approach for our 2009 annual report as well.

This solution is saving trees, saving water that would be used to create paper from those trees, and saving fuel with thousands fewer annual reports to ship. Best of all, our online annual report gives you the opportunity to learn about American Water from the most powerful solutions we have—our people.

I invite you to visit [www.amwaterannualreport.com](http://www.amwaterannualreport.com) to learn more about our solutions in action in 2009, and our plans for the future.

Thank you for your interest in American Water.



Donald L. Correll  
President and Chief Executive Officer

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file: number 001-34028

**AMERICAN WATER WORKS COMPANY, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

1025 Laurel Oak Road, Voorhees, NJ  
(Address of principal executive offices)

51-0063696  
(I.R.S. Employer  
Identification No.)

08043  
(Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Small reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, \$0.01 par value—\$3,335,885,725 as of June 30, 2009.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Common Stock, \$0.01 par value per share—174,670,026 shares, as of February 25, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE**

(1) Portions of the Company's Proxy Statement for the Company's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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the other lenders to assume the default lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment, however the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will replace a defaulting lender.

At December 31, AWCC had the following sub-limits and available capacity under the credit facility.

	<u>2009</u>	<u>2008</u>
Letter of credit sublimit .....	\$150,000	\$150,000
Letter of credit available capacity .....	101,754	106,097

At December 31, 2009, the Company had \$50,579 of outstanding letters of credit, \$48,246 of which was issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Average borrowings .....	\$347,413	\$291,821
Maximum borrowings outstanding .....	708,691	570,429
Weighted average interest rates, computed on a daily basis .....	0.82%	3.51%
Weighted average interest rates, at December 31 .....	0.39%	0.75%

Interest rates on advances under the credit facility are based on either prime or the London Interbank Offering Rate ("LIBOR") plus an applicable margin based upon credit ratings of the Company, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2009 was 0.58 to 1.00.

None of the Company's borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company's credit facilities.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

AWCC has entered into a one year \$10,000 committed revolving line of credit with PNC Bank, N.A. This line of credit will terminate on December 31, 2010 unless extended and is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of the financial institution or the applicable LIBOR rate for the term selected plus 175 basis points.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of March, 2010.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ DONALD L. CORRELL

Donald L. Correll  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 27th day of February, 2009 by the following persons in the capacities indicated.

/s/ DONALD L. CORRELL

Donald L. Correll  
President and Chief Executive Officer  
(Principal Executive Officer and Director)

/s/ RICHARD R. GRIGG

Richard R. Grigg  
(Director)

/s/ ELLEN C. WOLF

Ellen C. Wolf  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

/s/ JULIA L. JOHNSON

Julia L. Johnson  
(Director)

/s/ GEORGE MACKENZIE

George MacKenzie  
(Director)

/s/ WILLIAM J. MARRAZZO

William J. Marrazzo  
(Director)

/s/ MARTHA CLARK GOSS

Martha Clark Goss  
(Director)

/s/ STEPHEN P. ADIK

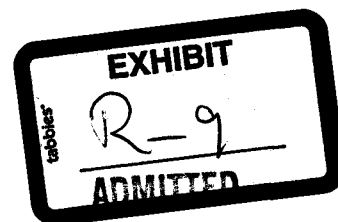
Stephen P. Adik  
(Director)

/s/ JULIE A. DOBSON

Julie A. Dobson  
(Director)

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343  
AND DOCKET NO. SW-01303A-09-0343



DIRECT TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 8, 2010

**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

---

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, AN )  
ARIZONA CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS RATES )  
AND CHARGES BASED THEREON FOR UTILITY )  
SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS )  
SUN CITY WATER DISTRICT )

DOCKET NO. W-01303A-09-0343

---

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, AN )  
ARIZONA CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS RATES )  
AND CHARGES BASED THEREON FOR UTILITY )  
SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER )  
DISTRICT, ITS SUN CITY WASTEWATER DISTRICT )  
AND ITS SUN CITY WEST WASTEWATER DISTRICT )

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DOCKET NO. SW-01303A-09-0343

DIRECT

TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 1, 2010

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**I. INTRODUCTION**

**Q. Please state your name, position and business address.**

A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

**Q. Please describe Larkin & Associates.**

A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous telephone, water and sewer, gas, and electric matters.

**Q. Mr. Smith, please summarize your educational background.**

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the Certified Public Accountant ("C.P.A.") examination in my first sitting in 1979, received my CPA license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed C.P.A. and attorney in the State of Michigan. I am also a Certified Financial Planner<sup>TM</sup> professional and a Certified Rate of Return Analyst

1 ("CRRA"). Since 1981, I have been a member of the Michigan Association of Certified  
2 Public Accountants. I am also a member of the Michigan Bar Association and the Society  
3 of Utility and Regulatory Financial Analysts ("SURFA"). I have also been a member of  
4 the American Bar Association (ABA), and the ABA sections on Public Utility Law and  
5 Taxation.

6  
7 **Q. Please summarize your professional experience.**

8 A. Subsequent to graduation from the University of Michigan, and after a short period of  
9 installing a computerized accounting system for a Southfield, Michigan realty  
10 management firm, I accepted a position as an auditor with the predecessor CPA firm to  
11 Larkin & Associates in July, 1979. Before becoming involved in utility regulation where  
12 the majority of my time for the past 29 years has been spent, I performed audit,  
13 accounting, and tax work for a wide variety of businesses that were clients of the firm.

14 During my service in the regulatory section of our firm, I have been involved in  
15 rate cases and other regulatory matters concerning electric, gas, telephone, water, and  
16 sewer utility companies. My present work consists primarily of analyzing rate case and  
17 regulatory filings of public utility companies before various regulatory commissions, and,  
18 where appropriate, preparing testimony and schedules relating to the issues for  
19 presentation before these regulatory agencies.

20 I have performed work in the field of utility regulation on behalf of industry, state  
21 attorneys general, consumer groups, municipalities, and public service commission staffs  
22 concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona,  
23 Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Indiana, Illinois,

1 Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New  
2 Jersey, New Mexico, New York, Nevada, North Dakota, Ohio, Pennsylvania, South  
3 Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington D.C.,  
4 West Virginia and Canada as well as the Federal Energy Regulatory Commission and  
5 various state and federal courts of law.

6  
7 **Q. Have you prepared an attachment summarizing your educational background and**  
8 **regulatory experience?**

9 A. Yes. Attachment RCS-1 provides details concerning my experience and qualifications.  
10

11 **Q. On whose behalf are you appearing?**

12 A. I am appearing on behalf of the Residential Utility Consumer Office ("RUCO").  
13

14 **Q. Have you previously testified before the Arizona Corporation Commission?**

15 A. Yes. I have previously testified before the Commission on a number of occasions. I  
16 testified before the Commission in Docket No. E-01345A-06-0009, involving an  
17 emergency rate increase request by Arizona Public Service Company ("APS" or  
18 "Company"), APS' Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-  
19 05-0827, concerning proceedings involving APS base rates and other matters, and the  
20 most recent APS case, Docket No. E-01345A-08-0172, concerning an emergency rate  
21 increase and general rate case request. I also testified before the Commission in the last  
22 UNS Gas, Inc. rate cases, Docket Nos. G-04204A-08-0571, G-04204A-06-0463, G-  
23 04204A-06-0013 and G-04204A-05-0831, and in a previous UNS Electric, Inc. rate case

1 Docket No. E-04204A-06-0783, as well as the last Southwest Gas Corporation rate case,  
2 G-01551A-07-0504, and Tucson Electric Power Company, Docket No. E-01933A-07-  
3 0402, among others.

4  
5 **Q. What is the purpose of the testimony you are presenting?**

6 A. The purpose of my testimony is to address the rate base, adjusted net operating income  
7 and revenue requirement proposed by Arizona-American Water Company ("Arizona-  
8 American", "AAWC," or "Company").

9  
10 **Q. Have you prepared any exhibits to be filed with your testimony?**

11 A. Yes. Attachments RCS-2 through RCS-5 contain the results of my analysis and copies of  
12 selected documents that are referenced in my testimony, respectively.

13  
14 **II. REVENUE REQUIREMENT**

15 **Q. What issues are addressed in your testimony?**

16 A. My testimony addresses the Company's proposed revenue requirement and selected other  
17 issues.

18  
19 **Q. What revenue increase has been requested by AAWC?**

20 A. For the districts included in its current filing, AAWC is requesting an increase in base rate  
21 revenues of \$20.498 million, or approximately 56.06 percent over adjusted revenues at  
22 current rates as shown in the following table:

Summary of Requested Rate Increases per Company

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$7,268,177	\$ 2,531,127	\$ 7,060,837	\$ 2,156,882	\$ 1,480,756	\$ 20,497,779
Adjusted Current Revenues	\$7,210,624	\$ 9,125,203	\$ 8,634,567	\$ 5,933,970	\$ 5,660,389	\$ 36,564,753
% Change	100.80%	27.74%	81.77%	36.35%	26.16%	56.06%

The requested revenue amount is from Company Schedule A in AAWC's filing and is also shown on RUCO Schedule A on Attachments RCS-2 and RCS-3.

**Q. What revenue increase does RUCO recommend?**

A. RUCO recommends a revenue increase on adjusted fair value rate base, for each AAWC division, of no more than the amounts listed in the following table:

Summary of RUCO Recommended Rate Increases By District

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$5,327,222	\$ 712,316	\$ 5,296,731	\$ 1,527,407	\$ 757,477	\$ 13,621,153
Adjusted Current Revenues	\$7,201,168	\$ 9,125,203	\$ 8,634,567	\$ 5,933,970	\$ 5,660,389	\$ 36,555,297
% Change	73.98%	7.81%	61.34%	25.74%	13.38%	37.26%

Details of how these amounts of revenue deficiency were derived are shown in Attachments RCS-2 and RCS-3 to my testimony. The revenue deficiency for each water district is presented in Attachment RCS-2 on the respective "Schedule A" for that district. A "Schedule A" has also been presented for the total water districts and, separately, the

1 total wastewater districts, for which rate increases have been sought by AAWC in the  
2 current rate case. Attachment RCS-3 presents similar information for each wastewater  
3 district.

4  
5 **A. Test Year**

6 **Q. What test year is being used in this case?**

7 A. AAWC's filing is based on the calendar test year ended December 31, 2008. RUCO's  
8 calculations use the same test year.

9  
10 **Q. Could you please discuss the test year concept?**

11 A. Yes. In Arizona, a historic test year approach is used. Various adjustments are made to  
12 the historic test year amounts to ensure that there is a matching of investment, revenues  
13 and expenses. Rate base items, such as plant in service and accumulated depreciation, are  
14 based on the actual level as of the end of the historic test year. Several rate base items that  
15 tend to fluctuate from month to month, such as materials and supplies and prepayments,  
16 are based on a test year average level. Since end of test year net plant in service is used,  
17 revenues are annualized based on end of test year customer levels. Additionally, certain  
18 expenses, such as depreciation and payroll costs, are annualized based on end of test year  
19 levels. This is to ensure that the going-forward revenue and expense levels are matched  
20 with the investment (net plant-in-service) used to serve those customers.

21 As time goes forward, changes in the Company's cost structure will occur. For  
22 example, rate base will increase as new plant is added to serve new customers, revenue  
23 will increase as customers are added, expenses will fluctuate, etc. It is very important to

1 be consistent with a test period approach to ensure that there is a consistent matching  
2 between investment, revenues and costs. Any adjustments that reach beyond the end of  
3 the historic test year must be very carefully considered before being adopted.  
4

5 **B. Summary of Company Proposed and RUCO Adjusted Revenue Requirement**

6 **Q. What did your review of AAWC's filing indicate?**

7 A. As shown on Attachment RCS-2 for water and Attachment RCS-3 for sewer, Schedule A,  
8 column C, based on the weighted cost of capital recommended by RUCO witness Rigsby  
9 for application to OCRB, and the adjustments to AAWC's rate base and net operating  
10 income recommended by myself, I have calculated a jurisdictional base rate revenue  
11 requirement deficiency on OCRB for each of the AAWC divisions. I have also  
12 summarized the increases for the water divisions and, separately for the wastewater  
13 divisions, for which AAWC had applied for rate increases in this case. AAWC has  
14 requested that its OCRB be used as its Fair Value Rate Base ("FVRB") and has not  
15 included with its filing reconstruction cost new depreciated ("RCND") information. I  
16 have also used the OCRB as the appropriate measure of the Company's FVRB in this  
17 case. As also shown on Schedule A, page 1, of the respective Attachment RCS-2 for  
18 water and Attachment RCS-3 for wastewater districts, I have calculated recommended  
19 base rate increases using a fair value rate of return (FVROR) of 6.77 percent for each  
20 district. The 6.77 percent is the weighted average cost of capital ("WACC")  
21 recommended by RUCO witness Rigsby. Because the FVRB is the same as the OCRB for  
22 purposes of this case, the WACC and the FVROR are also the same. AAWC should

1 receive a base rate increase of no more than the amounts and percentages for each district  
2 as summarized in the following table:

Summary of RUCO Recommended Rate Increases By District

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$5,327,222	\$ 712,316	\$ 5,296,731	\$ 1,527,407	\$ 757,477	\$ 13,621,153
Adjusted Current Revenues	\$7,201,168	\$ 9,125,203	\$ 8,634,567	\$ 5,933,970	\$ 5,660,389	\$ 36,555,297
% Change	73.98%	7.81%	61.34%	25.74%	13.38%	37.26%

3  
4  
5 **C. Organization of RUCO Accounting Schedules**

6 **Q. How are RUCO's accounting schedules organized?**

7 A. RUCO's accounting schedules are presented in Attachment RCS-2 for the water districts,  
8 and on Attachment RCS-3 for the wastewater districts. The presentation in those  
9 attachments is organized into summary schedules and adjustment schedules. The  
10 summary schedules consist of Schedules A, A-1, B, B.1, C, C.1 and D. Within  
11 Attachment RCS-2, a set of summary schedules is included for the total of the water  
12 districts and, separately, for each water district. Similarly, in Attachment RCS-3, a set of  
13 summary schedules is included for the total of the wastewater districts, and, separately, for  
14 each wastewater district in AAWC's filing.

15 Attachments RCS-2 and RCS-3 also contains rate base adjustment Schedules B-1  
16 through B-4 and net operating income adjustment Schedules C-1 through C-17, which  
17 show the detailed adjustments I am recommending to AAWC's filing for water and  
18 wastewater, respectively.

1  
2 **Q. How have you designated the districts on Attachments RCS-2 and RCS-3?**

3 A. I have used the following designations for the districts on Attachment RCS-2:

4 “(A)” for Anthem Water

5 “(SC)” for Sun City Water

6 I have used the following designations for the districts on Attachment RCS-3:

7 “(AAF)” for Anthem/Agua Fria Wastewater

8 “(SC)” for Sun City Wastewater

9 “(SCW)” for Sun City West Wastewater

10 As illustrative examples, the schedule showing the calculation of the revenue requirement  
11 deficiency for Sun City Water on Attachment RCS-2 is designated as Schedule A (SC).  
12 Similarly, the revenue deficiency schedule for Sun City Wastewater is designated as  
13 Schedule A (SC) on Attachment RCS-3.  
14

15 **Q. What is shown on the “A” Schedules of Attachments RCS-2 and RCS-3?**

16 A. As noted above, Attachments RCS-2 and RCS-3 present the RUCO Accounting Schedules  
17 and revenue requirement determination for the water districts and wastewater districts,  
18 respectively. Schedule A presents the overall financial summary, giving effect to all the  
19 adjustments discussed in my testimony. This schedule presents the change in the  
20 Company’s gross revenue requirement needed for the Company to have the opportunity to  
21 earn RUCO’s recommended rate of return on RUCO’s proposed Original Cost and Fair  
22 Value rate bases. The rate base and operating income amounts are taken from Schedules  
23 B and C, respectively. The overall rate of return on original cost rate base of 6.77 percent,

1 as presented in the prefiled testimony of RUCO witness Rigsby, is provided on Schedule  
2 D for convenience.

3 Column A of Schedule A replicates AAWC's proposed calculations of the revenue  
4 deficiency. Columns B presents RUCO's determination of the base rate revenue  
5 deficiency on OCRB and FVRB. Column C shows differences between RUCO and  
6 AAWC.

7 The operating income deficiency shown on line 5 of Schedule A is obtained by  
8 subtracting the operating income available on line 4 (operating income as adjusted) from  
9 the required operating income on line 3. Line 6 represents the gross revenue requirement,  
10 which is obtained by multiplying the income deficiency by the gross revenue conversion  
11 factor (GRCF).

12  
13 **Q. What is shown on Schedule A-1?**

14 A. Schedule A-1 shows the derivation of the GRCF. The GRCF is used to convert the net  
15 operating income deficiency into a revenue deficiency amount. A component for the  
16 revenue-based impact on property taxes is included in the derivation of the GRCF. My  
17 calculation of the GRCF for each district follows the same format as AAWC's.

18  
19 **Q. How does the GRCF recommended by RUCO compare with the GRCF contained in**  
20 **AAWC's filing?**

21 A. As shown on the respective Schedule A-1, for each AAWC district, for its direct filing  
22 RUCO has used the same GRCFs that were contained in AAWC's filing. At a later point

1 in the proceeding, the specific GRCF for each district may be subject to revision based on  
2 other changes, such as changes in the amount of revenue increase.

3  
4 **Q. What is shown on the "B" Schedules?**

5 A. For each district, and in summary for the water systems and, separately, for the wastewater  
6 districts included in AAWC's filing, on Attachments RCS-2 and RCS-3, respectively,  
7 there is a Schedule B. Each Schedule B presents AAWC's proposed adjusted test year  
8 rate base (in column A), RUCO's adjustments (in column B) and RUCO's adjusted test  
9 year rate base (in column C). The beginning rate base amounts presented on Schedule B  
10 are taken from the Company's filing for the test year, specifically AAWC Schedule B-1.

11 RUCO's recommended adjustments to rate base are summarized on Schedule B.1.  
12 In Attachments RCS-2 and RCS-3, I have prepared a Schedule B.1 for adjustments to  
13 AAWC's for each district, and in summary for the water systems and, separately, for the  
14 wastewater districts included in AAWC's filing.

15 In Attachments RCS-2 and RCS-3, Schedules B-1 through B-4 provide further  
16 support and calculations for each rate base adjustment that I am recommending.

17  
18 **Q. How was the fair value basis of rate base determined?**

19 A. The FVRB in this proceeding is the same as the adjusted OCRB.  
20

21 **Q. What is shown on the "C" Schedules of Attachments RCS-2 and RCS-3?**

22 A. For each district, and in summary for the water systems and, separately, for the wastewater  
23 districts included in AAWC's filing, Schedule C shows the Company's requested and

1 RUCO's adjusted net operating income. The starting point on each Schedule C is  
2 AAWC's adjusted test year net operating income, as provided on Company Schedule C-1.  
3 For each district, Schedule C shows AAWC's filed net operating income (in column A),  
4 RUCO's adjustments (in column B) and RUCO's adjusted net operating income (in  
5 column C).

6 Each of RUCO's recommended adjustments to AAWC's adjusted test year  
7 revenues and expenses are summarized on Schedule C.1. The income tax impact of each  
8 adjustment is also shown on Schedule C.1.

9 Schedules C-1 through C-17 provide further support and calculations for the net  
10 operating income adjustments that I am recommending. Each of the adjustments are  
11 discussed in my testimony.

12  
13 **Q. What is shown on Schedule D?**

14 A. Schedule D summarizes the capital structure and cost of capital that was proposed by  
15 AAWC and the capital structure and cost of capital that is recommended by RUCO  
16 witness Rigsby. In this case, because the FVRB is the same as the adjusted OCRB, the  
17 fair value rate of return ("FVROR") is the same as the weighted average cost of capital  
18 ("WACC") shown on Schedule D.

19  
20 **III. RATE BASE**

21 **Q. Have you prepared schedules that summarize RUCO's proposed adjustments to rate**  
22 **base?**

1 A. Yes. As noted above, in Attachments RCS-2 and RCS-3, respectively, for each district,  
2 and in summary for the water systems and, separately, for the wastewater districts  
3 included in AAWC's filing, I have prepared a Schedule B, which shows the rate base  
4 requested by AAWC, RUCO's adjustment and RUCO's adjusted rate base. The  
5 adjustments to AAWC's proposed rate base are shown on Schedule B.1. A comparison of  
6 the Company's proposed rate base and RUCO's recommended rate base, by district, is  
7 presented below:

District	Per Company	Per RUCO	Difference
Anthem Water	\$ 57,430,025	\$ 57,291,754	\$ (138,271)
Sun City Water	\$ 28,186,063	\$ 26,400,924	\$ (1,785,139)
Anthem/Agua Fria Wastewater	\$ 47,735,732	\$ 47,558,242	\$ (177,490)
Sun City Wastewater	\$ 14,764,087	\$ 14,660,342	\$ (103,745)
Sun City West Wastewater	\$ 17,821,272	\$ 17,739,272	\$ (82,000)
Total Rate Base	\$ 165,937,179	\$ 163,650,534	\$ (2,286,645)

8  
9  
10  
11 ***Plant Adjustments***

12 **Q. Are you proposing any adjustments to AAWC's requested plant in service?**

13 A. Yes. I am proposing two adjustments to AAWC's requested plant in service. The first  
14 adjustment, B-1, affects only the Sun City Water district, and removes an item of post-test  
15 year plant that AAWC had requested. The second adjustment, B-2, affects only the Agua  
16 Fria Wastewater district, and removes the cost of two effluent pumps that had been retired  
17 during the test year.

18 ***B-1 Post Test Year Plant – Sun City Water***

19 **Q. Has AAWC requested the inclusion in rate base of plant that was not in service**  
20 **during the test year?**

1 A. Yes. The Company has proposed to include in rate base the cost for a new well that was  
2 placed into service on May 27, 2009, at an amount of \$1.587 million.

3  
4 **Q. Should that be allowed?**

5 A. No. This is being removed because it was not in service during the test year and because  
6 AAWC has failed to demonstrate special or unusual circumstances to justify inclusion of  
7 the post test year plant additions in rate base.

8  
9 **Q. Please elaborate on why post test year plant should be removed in the current**  
10 **AAWC rate case.**

11 A. The test year is the one-year historical period used in determining rate base, operating  
12 income and rate of return. Commission's rules at A.A.C. R14-2-103(A)(3)(p) require the  
13 end of the test year to be the most recent practical date available prior to the filing. A  
14 utility has the freedom to choose a test year that includes all major rate base and operating  
15 income items needed to support its rate application, and to include pro forma adjustments  
16 to its test year. The "matching" concept is a fundamental principle of accounting and  
17 ratemaking. The absence of matching distorts the coordination the elements of the  
18 ratemaking formula, and can adversely affect the fairness and reasonableness of rates. My  
19 understanding is that the Commission has only allowed inclusion of post test year plant in  
20 special and unusual circumstances that warranted such recognition. Decision No. 71410,  
21 at page 20, cites the following two types of situations that have warranted rate base  
22 recognition of post-test year plant:

1                   (1) *when the magnitude of the investment relative to the utility's total investment is*  
2                   *such that not including the post test year plant in the cost of service would*  
3                   *jeopardize the utility's financial health; and*

4                   (2) *when certain conditions exist as follows:*

5                   (a) *the cost of the post test year plant is significant and substantial;*

6                   (b) *the net impact on revenue and expenses for the post test year plant is known*  
7                   *and insignificant or is revenue-neutral; and*

8                   (c) *the post test year plant is prudent and necessary for the provision of services*  
9                   *and reflects appropriate, efficient, effective, and timely decision-making.*

10                  In the current rate case, AAWC has not demonstrated special or unusual circumstances to  
11                  justify inclusion of the post test year plant additions in rate base.

12  
13       **Q. Did the Commission remove AAWC's request for post-test year plant AAWC's last**  
14       **rate case?**

15       A. Yes. For reasons similar to those stated above, AAWC's request for post test year plant  
16       was removed in Decision No. 71410 for Agua Fria Water, Mohave Water and Mohave  
17       Wastewater.

18  
19       **Q. What adjustment is needed?**

20       A. This adjustment is shown on Attachment RCS-2, Schedule B-1, and reduces rate base by  
21       \$1.587 million to remove post-test year plant for the Sun City Water district.

22  
23       **Q. Is there a related adjustment to expense?**

24       A. Yes. As shown on Attachment RCS-2, Schedule C-16, Arizona-American's proposed  
25       depreciation expense for Sun City Water is reduced by \$36,961 based on applying the

1 applicable depreciation rates to the plant adjustment. I discuss this related adjustment to  
2 depreciation expense in a subsequent section of my testimony.

3 ***B-2 Agua Fria Wastewater – Retirement of Two Effluent Pumps***

4 **Q. Are you recommending any other adjustments to plant in service?**

5 A. Yes. I am recommending an adjustment to remove from the Agua Fria Wastewater rate  
6 base the cost of two pumps that were retired during the test year. This adjustment is  
7 shown on Attachment RCS-3, Schedule B-2.

8  
9 **Q. Please explain the adjustment shown on Schedule B-2 of Attachment RCS-3.**

10 A. As described in the Company's response to STF 7.3, two effluent pumps at the Verrado  
11 waste water treatment plant ("WWTP") were retired. That response indicates that: "The  
12 original cost for the 2 pumps is \$52,636.25 and our Engineering Department has been  
13 notified that a retirement work order should be created to retire the pumps as soon as  
14 possible." This adjustment removes the original cost of the two pumps that were retired  
15 from Plant in Service and from Accumulated Depreciation. The net impact on rate base is  
16 zero.

17  
18 **Q. Is there a related adjustment to expense?**

19 A. Yes. As shown on Attachment RCS-3, Schedule C-17, Arizona-American's proposed  
20 depreciation expense for Agua Fria Wastewater is reduced by \$2,853, based on the plant  
21 amount of \$52,636 times the depreciation rate of 5.42 percent. I discuss this related  
22 adjustment to depreciation expense in a subsequent section of my testimony.  
23

1 **B-3 CIAC in CWIP (All Districts Except Sun City West Wastewater)**

2 **Q. What is the issue relating to CIAC in CWIP?**

3 A. The Company contends that Contributions in Aid of Construction ("CIAC") associated  
4 with Construction Work in Progress ("CWIP") should not be deducted from rate base,  
5 because there is no offsetting plant in rate base.

6  
7 **Q. Please explain why the full amount of CIAC should be deducted from rate base.**

8 A. The full amount of CIAC should be deducted from rate base because it is the Company's  
9 choice whether to accept plant or funds from developers, and if the Company chooses to  
10 accept plant, then the Company is not expending funds for the plant and thus has funds for  
11 other uses. Additionally, the Company's position is contrary to traditional ratemaking  
12 practices and contrary to the National Association of Regulatory Utility Commissioners  
13 ("NARUC")\_definition of CIAC, which does not distinguish between CIAC associated  
14 with CWIP and CIAC associated with plant in service.

15  
16 **Q. Was this Company position rejected by the Commission in AAWC's last rate case?**

17 A. Yes. Decision No. 71410 rejected AAWC's arguments for filing to deduct CIAC from  
18 rate base, and stated at pages 26-27 that:

19 We agree with RUCO and Staff that the Company's choice whether to  
20 accept plant or funds from developers is irrelevant, and does not change the  
21 nature of AIAC or CIAC. The evidence in this case does not persuade us to  
22 depart from the traditional treatment of deducting AIAC and CIAC from  
23 rate base. The adjustments recommended by RUCO and Staff will be  
24 adopted.  
25

1 **Q. What adjustment is necessary in the current AAWC rate case?**

2 A. As shown on Attachment RCS-2, Schedule B-3, rate base should be reduced by \$138,495  
3 in total, and by the amounts shown there, and listed below for each district:  
4

Summary of Adjustments to CIAC

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$ (30,271)	\$ (38,991)	\$ (65,490)	\$ (3,743)	\$ -	\$ (138,495)

5  
6  
7 **B-4 Cash Working Capital (All Districts)**

8 **Q. What is cash working capital?**

9 A. Cash working capital ("CWC") is the cash needed by the Company to cover its day-to-day  
10 operations. If the Company's cash expenditures, on an aggregate basis, precede the cash  
11 recovery of expenses, investors must provide cash working capital. In that situation a  
12 positive cash working capital requirement exists. On the other hand, if revenues are  
13 typically received prior to when expenditures are made, on average, then ratepayers  
14 provide the cash working capital to the utility, and the negative cash working capital  
15 allowance is reflected as a reduction to rate base. In this case, the cash working capital  
16 requirement is a reduction to rate base as ratepayers are essentially supplying these funds.

17  
18 **Q. Does AAWC's filing reflect a positive or negative cash working capital requirement?**

19 A. AAWC's filing shows that it has a positive cash working capital requirement for each  
20 district. However, there are some serious flaws in AAWC's calculations. After correcting

1 for such concerns, Attachments RCS-2 and RCS-3, on the respective Schedule B-4 for  
2 each district, shows the adjusted cash working capital requirement for each AAWC  
3 district.

4  
5 **Q. What is indicated by a positive or negative cash working capital requirement?**

6 A. A negative CWC requirement occurs when the results of a lead-lag study indicate that  
7 ratepayers are supplying the funds used for the day-to-day operations of the Company. On  
8 average, revenues from ratepayers are received prior to the time when the utility pays the  
9 associated expenditures. Conversely, a positive CWC requirement indicates that utility  
10 investors have supplied funds used for the day-to-day operations of the Company.

11  
12 **Q. Did AAWC present a lead/lag study in support of its cash working capital**  
13 **requirement?**

14 A. Yes, AAWC performed a lead/lag study to calculate the cash working capital requirement  
15 in this case. The Company provided its lead/lag study calculations with its work papers in  
16 this case.

17  
18 **Q. What issues are you addressing with respect to AAWC lead/lag study and request for**  
19 **Cash Working Capital?**

20 A. I am addressing the following issues with respect to AAWC's proposed Cash Working  
21 Capital allowance:

22 (1) revenue collection lag;

23 (2) affiliated Service Company Management Fee payment lag; and

24 (3) adjustments to expenses.  
25

**1. Revenue Lag**

**Q. What is the function of a revenue lag in a lead/lag study?**

A. The revenue lag is supposed to measure, on average, the time between (a) the provision of service and (b) the receipt of payment for service. It typically is comprised of three sub-component lags: (1) the service period lag, (2) the billing lag, and (3) the collection lag.

**Q. What revenue lags did AAWC use in its lead/lag study?**

A. The revenue lags used by AAWC for each district is summarized in the table below:

Summary of Revenue Lag as calculated by AAWC					
Revenue Lag Component	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Service Period Lag	15.148	15.219	15.248	15.335	15.394
Billing Lag	4.875	4.426	4.711	4.317	4.216
Collection Lag	26.082	26.082	26.082	26.091	26.018
Total Revenue Lag Days	46.105	45.727	46.040	45.743	45.628

The Company's lead lag study uses a collection lag, by service area, ranging from 26.018 days to 26.091 days. This effectively assumes that customers, on average, throughout the year, are not complying with the payment terms. The payment terms are supposed to be reflected in the dates printed on the customers' bills and with the terms of AAWC's tariff. As discussed in more detail below, the due date for payment of billings for water and wastewater service is 20 days and does not differ by the type of customer.

**Q. Are the revenue lags used by AAWC appropriate?**

A. No. The collection lag period used by AAWC is excessive and would penalize all customers, including the vast majority of customers that pay their utility bills on time, for the minority of customers who either paying their bills late or do not pay at all (i.e., whose bills become uncollectible).

1

2 **Q. Did RUCO request that AAWC provide Accounts Receivable aging reports by**  
3 **district for each month of 2007, 2008 and 2009?**

4 A. Yes, such information was requested in RUCO 2-74(j).

5

6 **Q. Did AAWC provide those requested Accounts Receivable aging reports?**

7 A. No. AAWC's response to RUCO 2-74(j) stated that: "The aging reports are deleted from  
8 the system after a short period of time. We are investigating what is required to to (sic)  
9 restore the aging reports by district. The reports are available for the Company as a whole,  
10 but not at the district specific level of detail. If the Company as a whole would suffice,  
11 please let the me (sic) know."

12

13 **Q. Without the district aging reports that AAWC could not provide, it is possible to**  
14 **reasonably adjust the collection lag?**

15 A. Yes. A reasonable adjustment to the collection lag can be made by applying the 20 day  
16 due date period as the maximum collection lag that would apply for customers who, on  
17 average, pay their utility bills on time.

18

19 **Q. Please explain why an adjustment for the revenue collection lag is needed.**

20 A. The Company's lead-lag study uses an unreasonably long revenue lag because its revenue  
21 collection lag extends well beyond the bill payment period. The Company's revenue lag  
22 is also excessive in comparison with other Arizona utilities that bill customers monthly.  
23 The Company effectively assumes that customers, on average, are paying their bills late,

1 i.e., are on average not paying their bills by the due date printed on the bills.

2 Uncollectibles and late payments should be excluded from the calculation of cash working  
3 capital. Before amounts are written-off as uncollectible, the Company may carry such  
4 amounts on its books in Accounts Receivable for several months, thus distorting the  
5 revenue collection lag for customers who, on average, pay their bills on time.

6 Additionally, bad debt recoveries may be eventually collected several months after the  
7 rendering of the initial bill. Including write-offs and recoveries in the determination of the  
8 revenue collection lag, however, can result in a distortion of the time when normal paying  
9 customers pay their bills for the water and sewer utility service. A more reasonable  
10 expectation, and one that excludes the potentially distortive impact of uncollectibles on the  
11 collection lag, is that customers, on average, pay their bills for water and sewer utility  
12 service on or before the due date printed on the bill. Moreover, the Company charges late  
13 fees and receives late fee revenue from the customers who pay their bills late.

14  
15 **Q. Please explain how you calculated the adjustment for the revenue lag on each**  
16 **respective Schedule B-4, of Attachments RCS-2 and RCS-3.**

17 A. I used a maximum period of 20 days for the revenue collection lag for each Arizona  
18 district that AAWC had included in its lead-lag study. This assures that the collection lag  
19 portion of the revenue lag is not overstated in comparison with the terms provided in the  
20 Company's tariff for the payment of the billed revenue. Uncollectibles are removed from  
21 cash working capital because they are a non-cash expense. Before they become  
22 uncollectible, billed revenue amounts may be carried on the company's books as an  
23 account receivable for some time, perhaps even for several months, thus adding to the

1 revenue collection lag. This necessitates a reasonableness check on the collection lag that  
2 reflects the timely payment of revenues that are collected.

3 As stated in the response to RUCO 2-74(b) and (c), the customer bills issued by  
4 AAWC states when the bill is due, and "due dates are 20 days after the billing date and it  
5 does not differ by type of customer." Moreover, customers are subject to a late charge if  
6 payment is made late. As stated in the response to RUCO 2-74(e): "Customers are subject  
7 to a 1-1/2% late charge. It begins by being posted to the account on day 21."

8 For computing the revenue collection lag, I have therefore used the 20 days as the  
9 maximum period, on average, which revenue collection should be occurring, without the  
10 potentially distortive impact of uncollectible write-offs. This adjustment resulted in the  
11 revised revenue lags for each service district as follows:

Adjusted Revenue Lag Days with 20-Day Collection Lag					
Revenue Lag Component	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Service Period Lag	15.148	15.219	15.248	15.335	15.394
Billing Lag	4.875	4.426	4.711	4.317	4.216
Collection Lag	20.000	20.000	20.000	20.000	20.000
<b>Total Revenue Lag Days</b>	<b>40.023</b>	<b>39.645</b>	<b>39.959</b>	<b>39.652</b>	<b>39.610</b>

12  
13 **Q. Are you endorsing the Billing Lag days used by AAWC?**

14 **A.** No. The Billing Lag days are supposed to measure the time between the reading of the  
15 customer's meter and the issuance of the bill. With many modern utilities using  
16 automated meter reading and computerized billing software, a Billing Lag exceeding 4  
17 days on average also appears to be excessive. In short, the Billing Lag used by AAWC is  
18 also a concern, but a smaller one than the Collection Lag. Fixing the Collection Lag in  
19 this case, by limiting it to the bill payment due date, will resolve the biggest concern  
20 regarding AAWC's proposed revenue lag, so I have focused on adjusting for that;

however, this focus should not be misconstrued as an endorsement of the Billing Lag days proposed by AAWC, which may themselves reflect inefficiency.

**Q. How do the revenue lags used by AAWC compare with the revenue lags used in recent rate cases by other large Arizona utilities that bill their customers monthly?**

**A.** The following table summarizes the revenue lags that have been used in several recent rate cases:

Revenue Lag Typical Arizona Utilities That Use Monthly Billing			
Utility	Docket	Revenue Lag Days	Reference
APS (Arizona Public Service)	E-01315A-08-0172	38.17	A
TEP (Tucson Electric Power)	E-01933A-07-0402	33.79	B
UNS Gas	G-04204A-08-0571	40.70	C
UNS Electric	E-04204A-09-0206	35.59	D
UNS Electric	E-04204A-06-0783	35.59	E
Southwest Gas Corporation	G-01551A-07-0504	39.53	F
Notes and Source:			
[A]: APS workpaper JCL-WP11, p.9			
[B]: TEP Schedule B-5, p. 3			
[C]: UNSG Schedule B-5, p. 3			
[D]: UNSE Schedule B-5, p. 3			
[E]: UNSE filing Schedule B-5, p. 3			
[F]: SWG Schedule B-5, p. 2			

The revenue lags used by AAWC of over 45 days are considerably longer than the comparable revenue lags used in each of these recent rate cases by other large Arizona utilities that bill their customers monthly.

**Q. How do the adjusted revenue lags you are recommending for AAWC compare with the revenue lags used in recent rate cases by other large Arizona utilities that bill their customers monthly?**

1 A. The adjusted revenue lags I am recommending are near or slightly above the high end of  
2 the range of revenue lags used by other large Arizona utilities that bill their customers  
3 monthly. This supports the reasonableness of, and need to use, the revised revenue lags.  
4 Also, because the revised revenue lag days recommended for AAWC are at, or slightly  
5 above the high end of the range that has been used by other Arizona utilities, this supports  
6 viewing their use as the maximum revenue lag days that would be reasonable to use in  
7 determining AAWC's revenue requirement in this case.  
8

9 **2. Service Company Payment Lag**

10 **Q. What lag did AAWC apply in its lead-lag study for payments of affiliated company**  
11 **Management Fees?**

12 A. AAWC applied a payment lag of 14.7715 days, as shown on line 7 of AAWC's Schedule  
13 B-6, in the "Expense Lag Days" column for each district.  
14

15 **Q. Was the lag that AAWC applied in its lead-lag study for payments of affiliated**  
16 **company Management Fees objectionable?**

17 A. No. Had AAWC not indicated in response to a RUCO data request that it wants to  
18 drastically revise this lag and instead reflect a pre-payment of the affiliated Management  
19 Fees, I would not have objected to the payment lag of 14.7715 days that AAWC reflected  
20 in its filing, since it appears to be within a range of commercially reasonable terms such as  
21 payment lags to non-affiliated vendors.  
22

1 **Q. How has the Company indicated that it now wants to revise that lag and instead**  
2 **reflect a prepayment of Management Fees to the affiliates?**

3 A. Yes. In response to RUCO 2-75, AAWC has indicated that it pre-pays the affiliated  
4 Service Company for such affiliated Management Fees and wants to revise its filed lead-  
5 lag study to reflect a pre-payment, on average of 11.25 days.

6  
7 **Q. Should a pre-payment of Management Fees to the affiliates be allowed in the lead-lag**  
8 **study?**

9 A. No, it should not.

10  
11 **Q. Please explain your recommended Service Company payment lag.**

12 A. The payment lag applied to Management Fees paid to the affiliate American Water Works  
13 Service Company ("AWWSC") and/or to other affiliates should be adjusted to  
14 commercially reasonable terms. This substantial affiliated transaction should not be  
15 permitted to unnecessarily increase rate base via the creation of an unreasonable CWC  
16 requirement. In its filed lead-lag study, AAWC reflected a payment lag of 14.7715 days  
17 that appears to be commercially reasonable, in that it is between the payroll lag of 12 days  
18 and the maintenance lag of 33.6 days, and thus is within a range of reasonableness.  
19 However, as stated in response to RUCO 2-75, AAWC now seeks a revision to reflect a  
20 pre-payment, on average, for the Management Fees from the affiliates. This would imply  
21 that AAWC pays for affiliated services, on average, before the affiliated services are  
22 provided. AAWC should not be required to pay for services provided by this affiliate any  
23 more rapidly that it would pay for the services if they had been performed internally.

Moreover, if AAWC chooses to pre-pay for affiliate-provided services, on average, before they are provided, ratepayers should not be required to pay a return on the increase to AAWC's rate base that relates to such pre-payment for affiliated services. I have adjusted the CWC associated with AAWC's payments to the affiliate AWWSC by applying the same 12-day expense lag associated with AAWC's direct labor costs.

**Q. What have AAWC's affiliates said about this adjustment in other cases?**

A. It appears that AAWC would argue, as it alluded to in its response to RUCO 2-75 and RUCO 2-76, that a Service Company Agreement between AWWSC and the operating utility company would require prepayment by the utility of each month's Service Company costs.

**Q. Was AAWC able to demonstrate that the Arizona Corporation Commission had ever approved the Service Company Agreement as it applies to any of the AAWC districts covered in the current AAWC rate case?**

A. No. RUCO 2-76 asked the Company, in part: "Has the Commission approved any agreement between AzAWC and the affiliated Service Company? If not, explain fully why not. If so, please identify and provide a complete copy of such agreement. Include all amendments and changes thereto since AzAWC's last rate case."

AAWC's response stated, among other things, that<sup>1</sup>:

Prior approval of an affiliate arrangement is not required in Arizona. The Company has searched the Commission's decisions listing and has not been able to locate a case decision in which either the Company requested approval of or such approval was granted of the agreement between Arizona

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<sup>1</sup> A complete copy of AAWC's response to RUCO 2-76 is included in Attachment RCS-4.

American and the Service Company ("Agreement"). We believe neither has occurred, but we are not 100% certain at this time whether or not the ACC has approved the Agreement because the Company was providing utility services in Arizona for many years but only in the Paradise Valley district and readily available decisions for the 1990s are not complete.

AAWC included with its response to RUCO 2-76 a copy of the Paradise Valley "Agreement." Paradise Valley is not among the districts for which revenue increases are being sought in the current AAWC rate case. Consequently, AAWC has not been able to demonstrate that the Arizona Corporation Commission has approved the Service Company Agreement as it applies to any of the AAWC districts covered in the current AAWC rate case.

**Q. Even if the Arizona Corporation Commission had approved such a Service Company "Agreement", does that necessitate that a prepayment of affiliate Management Fees should be reflected in the utility's lead-lag study for ratemaking purposes?**

A. Apparently, not. The review of what is reasonable for ratemaking purposes typically occurs when an issue arises in the context of a rate case. The West Virginia Public Service Commission addressed a similar issue in a recent rate case for one of AAWC's affiliated water companies operating in that jurisdiction.

**Q. How was a similar argument presented by AAWC's water utility affiliate in a recent West Virginia rate case?**

A. In West Virginia Public Service Commission ("PSC") Case No. 08-0900-W-42T, West Virginia American Water Company ("WVAWC") presented a similar argument, citing the provisions of its Service Agreement with AWWSC, and claiming that such Agreement

1 would somehow require WVAWC ratepayers to pay a return on the rate base/CWC impact  
2 of such an affiliated services prepayment arrangement.

3  
4 **Q. How did the West Virginia PSC decide that issue?**

5 A. In its Commission Order dated March 25, 2009, the West Virginia PSC rejected the  
6 arguments presented by the water utility and adopted the adjustment recommended by the  
7 Consumer Advocate Division ("CAD"). Pages 35-36 of the West Virginia PSC's Order  
8 state as follows:

9 The Commission is not persuaded that the CAD recommendation is  
10 unreasonable or requires actions on the part of the Company that violate its  
11 agreement with AWWSC. The agreement allows AWWSC to provide a  
12 current bill 'as soon as practicable' after the last day of each month. It also  
13 provides that AWWSC provide an estimate of the bill for the next month.  
14 However, there is no provision for advance payments of the next monthly  
15 bill. While WVAWC should not act unreasonably in making payments to  
16 AWWSC, a lag comparable with its own payroll lags does not appear to be  
17 unreasonable, while an advance payment does appear to be unreasonable.  
18 The Commission will adopt this CAD adjustment to the Cash Working  
19 Capital.

20  
21 (Emphasis supplied)  
22

23 Consequently, the West Virginia Commission used the 12-day labor cost payment lag for  
24 the affiliated Service Company Management Fees in the lead-lag study.

25  
26 **Q. Is your recommended adjustment to AAWC's lead-lag study for the lag for**  
27 **payments to the affiliate AWWSC essentially the same recommendation that was**  
28 **recently adopted by the West Virginia PSC?**

29 A. Yes. AAWC's lead-lag study shows the same 12-day lag for that utility's direct payroll as  
30 did WVAWC's lead-lag study. I have applied this same 12-day lag for the AAWC direct

1 payroll as a reasonable payment lag for payments to the affiliate AWWSC, which  
2 provides services to WVAWC as well as AAWC.

3  
4 **Q. Might a payment lag longer than 12 days be reasonable for payments to this**  
5 **affiliate?**

6 A. Yes. As shown on AAWC – Anthem Water Schedule B-6, lines 14 and 15, for example,  
7 AAWC’s overall weighted lags for Maintenance Expense and Other Operating Expenses  
8 are 33.6 and 30.0 days, respectively. Consequently, applying the 12-day lag for AAWC’s  
9 direct payroll<sup>2</sup> as a payment lag for payments to the affiliate AWWSC is probably a bit  
10 conservative.

11  
12 **3. Other Expense Adjustments**

13 **Q. Have you also adjusted Cash Working Capital for each district for your**  
14 **recommended adjustments to operating expenses?**

15 A. Yes. Schedule B-4 for each district on Attachment RCS-2 (for water) and RCS-3 (for  
16 wastewater) also reflects adjustments for operating expense amounts.

17  
18 **Summary of Cash Working Capital Adjustments**

19 **Q. What is your adjusted Cash Working Capital allowance for each district?**

---

<sup>2</sup> See, RUCO Attachment RCS-2 and RCS-3, Schedule B-4, line 1, Labor, for each respective district which has a composite weighted payment lag of 12.00 days, meaning that payment is made, on average, 12 days after service is provided.

A. My recommended adjusted Cash Working Capital allowance is shown on Attachments RCS-2 and RCS-3, Schedule B-4 for each district, and how it compares with AAWC's request, is summarized in the following table:

Summary of Adjustments to Cash Working Capital

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$ (108,000)	\$ (159,000)	\$ (112,000)	\$ (100,000)	\$ (82,000)	\$ (561,000)

#### IV. ADJUSTMENTS TO OPERATING INCOME

Q. Please describe how you have summarized RUCO's proposed adjustments to operating income.

A. Attachment RCS-2 includes for each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing, a Schedule C that shows AAWC's requested net operating income, RUCO adjustments, and RUCO's adjusted net operating income. Schedule C.1 presents RUCO's recommended adjustments to Arizona test year revenues and expenses. The impact on state and federal income taxes associated with each of the recommended adjustments to operating income is also reflected on Schedule C.1. AAWC's proposed adjusted test year net operating income and RUCO's recommended adjusted net operating income for each district is summarized in the following table:

District	Adjusted Net Operating Revenue Increase		
	Per Company	Per RUCO	Difference
Anthem Water	\$ 514,448	\$ 667,437	\$ 152,989
Sun City Water	\$ 861,085	\$ 1,354,113	\$ 493,028
Anthem/Agua Fria Wastewater	\$ (191,785)	\$ 23,202	\$ 214,987
Sun City Wastewater	\$ (51,593)	\$ 64,724	\$ 116,317
Sun City West Wastewater	\$ 618,443	\$ 740,390	\$ 121,947
Total	\$ 1,750,598	\$ 2,849,864	\$ 1,099,266

The recommended adjustments to operating income are discussed below in the same order as they appear on Schedule C.1.

***C-1 Customer Annualization Correction (Anthem Water District)***

**Q. Please explain RUCO Adjustment C-1.**

A. AAWC's response to RUCO 2-48 says that RUCO witness Rodney Moore<sup>3</sup> found errors in the Company pro forma annualization for Anthem Water, which the Company is accepting and will reflect in their rebuttal. RUCO Adjustment C-1 in Attachment RCS-2 reflects the correction of such errors in computing the revenue requirement for Anthem Water. This adjustment decreases the amount of annualized revenue at current rates for Anthem Water by \$9,456.

***C-2 Rate Case Expense (All Districts)***

**Q. What has AAWC requested for rate case expense?**

A. AAWC has requested \$678,425 for the current case, amortized over three years, plus amortization of the remaining unamortized balance from prior rate cases. The \$678,425

<sup>3</sup> Mr. Moore will be presenting the rate design testimony for RUCO.

1 is shown on AAWC witness Broderick's Exhibit TMB-2. The amounts requested for the  
2 prior rate cases of \$149,119 is from AAWC witness Kiger's direct testimony at page 10  
3 and was requested over three years as an amortization in AAWC adjustment MHK-8.  
4

5 **Q. Why does the Company state it is asking for more rate case expense than in Docket**  
6 **No. 08-0227?**

7 A. Page 11 of AAWC witness Broderick's testimony states that: "The primary reason this  
8 [\$678,425] estimate is higher than the most recent (seven district) rate case is primarily  
9 due to the anticipated additional requirement to provide a required public notice to all  
10 154,000 Arizona-American customers of the proposed consolidated rates -- at a cost of  
11 roughly \$95,957. There is additional cost to have our rate design expert, Mr. Paul  
12 Herbert, design, support and explain consolidated rates. We also anticipate mailing a  
13 postcard to all customers concerning public meetings about rate consolidation at a cost of  
14 approximately \$40,000." AAWC Exhibit TMB-2 presents an itemization of the  
15 Company's estimated rate case expense, by component, which sums to the \$678,425. In  
16 addition to the components mentioned above, this includes \$230,000 for legal  
17 representation, \$65,000 for a cost of equity witness, \$65,000 for a rate design witness,  
18 \$15,000 for compliance for an Anthem rate tiers study, \$75,000 for "Shared Services"  
19 which appears to be for affiliate labor-related charges, \$20,000 for newspaper publishing  
20 of initial public notice and ACC public comment meetings, \$47,500 related to Company-  
21 sponsored community meetings, and \$50,329 for an initial public notice letter to 81,176  
22 customers.  
23

1     **Q.     Was a request made for the Company's supporting documentation?**

2     A.     Yes. A request for the supporting documentation was made in RUCO 2-40(a).

3  
4     **Q.     What did that response state regarding the initial public notice?**

5     A.     With regard to the initial public notice, the response to RUCO 2-40(a) stated: "Overall,  
6     to-date, expenses are running slightly under budget because the initial required public  
7     notice was sent as a bill insert and not as a separately mailed letter. However, legal  
8     expenses are expected to later be over budget." (Emphasis supplied.) Company Exhibit  
9     TMB-2 listed an estimated expense of \$50,329 for the initial public notice.

10

11    **Q.     What amount of rate case expense was allowed in Decision No. 71410?**

12    A.     Decision No. 71410 states at page 39 that: "We find total rate case expense of \$456,275,  
13    normalized over three years and allocated across the seven districts using the Company's  
14    four factor allocation methodology as agreed to by Staff to be reasonable, and will allow  
15    it." (footnote omitted).

16

17    **Q.     What does that equate to as an average per-district?**

18    A.     The \$456,275 for the seven districts would average \$65,182 per district. As noted above,  
19    the amount was allocated to the districts using the four factor allocation, rather than a  
20    straight average.

21

22    **Q.     Does there appear to be "economies of scale" in addressing multiple districts in a**  
23    **single rate case?**

1 A. Yes. While there are some issues that pertain only to a single district, there are also  
2 several common issues affecting all of the districts in the filing are addressed in the same  
3 rate case. Also, the \$456,275 for seven districts, which equates to \$65,182 average per  
4 district from Decision No. 71410, appears to be lower on a per-district basis than cases  
5 filed by AAWC having fewer districts.

6  
7 **Q. How many districts are included in the current AAWC filing?**

8 A. Five districts, including three wastewater districts and two water districts.

9  
10 **Q. If the average cost per district from Decision No. 71410 for the seven districts**  
11 **included in that case was used as a reasonableness check on AAWC's requested**  
12 **amount, what would the equivalent amount be for the current case, which includes**  
13 **five districts?**

14 A. The \$456,275 for the seven districts from Decision No. 71410 divided by 7 and multiplied  
15 by 5 produces an amount of approximately \$330,000:

	\$ 456,275	Decision No. 71410 For Seven Districts
/	7	Number of districts in last case
x	5	Number of districts in current case
	\$ 330,000	Approximate Equivalent 5 District Amount

16  
17  
18 **Q. The Anthem and Agua Fria wastewater districts are combined in this case. If those**  
19 **districts were counted separately, what would the average "per district" cost be?**

1 A. If the Anthem and Agua Fria wastewater districts were counted separately, that would  
2 mean 6 districts are included in the current AAWC filing, and the proportional amount  
3 would be approximately \$390,000:

$$\begin{array}{r} \$ 456,275 \text{ Decision No. 71410 For Seven Districts} \\ / \quad \quad \quad 7 \text{ Number of districts in last case} \\ \times \quad \quad \quad 6 \text{ Number of districts in current case*} \\ \hline \$ 390,000 \text{ Approximate Equivalent 6 District Amount} \end{array}$$

\*If Anthem and Agua Fria wastewater were considered  
as separate districts

4  
5 In summary, if all other things were equal, a rate case with fewer utility districts should  
6 equate to a lower allowable total amount for rate case expense than a comparable filing  
7 with a higher number of utility districts.

8  
9 **Q. Were the “unamortized” amounts from the prior rate case that AAWC had**  
10 **requested allowed?**

11 A. No. Decision No. 71410, at page 39, addressed this and states as follows:

12 RUCO opposes the inclusion in rates set in this case [of] the \$62,000 of  
13 Decision No. 69440 rate case expenses, and Staff is in agreement. RUCO  
14 argues that it should not be allowed because the amortization of rate case  
15 expense for two separate rate cases in one rate case is not a normal recurring  
16 expense; it would allow the Company to recover expenses associated with  
17 rates that are no longer in effect; and it would reimburse the Company for an  
18 expense that does not provide a benefit to current ratepayers.

19  
20 “We agree with RUCO and Staff that it would be inappropriate to allow  
21 Decision No. 69440 rate case expenses. As RUCO argues, allowing  
22 recovery of the Decision 69440 rate case expenses would contravene the  
23 ratemaking convention of setting rates at a normal recurring level of  
24 expenses, and would improperly result in charging ratepayers for  
25 expenditures related to rates that are no longer in effect, and it therefore  
26 must be rejected. (footnotes omitted.)  
27

1 **Q. Has the Company identified the allowed amounts of rate case expense in other recent**  
2 **AAWC rate cases?**

3 A. Yes. The Company's response to RUCO 2-78(b) states that:

4 Decision No. 71410, dated December 8, 2009, allowed \$456,275 in a seven district  
5 rate case. Decision No. 70372, dated June 13, 2008 allowed \$300,000 in a three  
6 district rate case. Decision No. 70351, dated May 16, 2008 allowed \$94,264 in a  
7 one district rate case.

8 AAWC's response to RUCO 2-78(c) states that:

9 "The amortization period for Decisions No. 71410 and 70372 was three  
10 years and Decision 70351 was four years."  
11

12 **Q. Please explain RUCO Adjustment C-2.**

13 A. This adjustment removes the cost for the prior rate case, and provides for an allowance of  
14 \$460,000 for the current case, normalized over three years, for a normalized annual  
15 allowance of \$153,333. This normalized allowance is allocated to each district in  
16 proportion to its four-factor allocator, as shown on Schedule C-2 in Attachment RCS-2 for  
17 water and Attachment RCS-3 for wastewater, respectively. The adjustment to reduce  
18 AAWC's requested rate case expense for each district is summarized below.

Summary of Adjustments to Rate Case Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (27,003)	\$ (24,304)	\$ (31,679)	\$ (20,573)	\$ (18,954)	\$ (122,513)

19  
20 **C-3 Incentive Compensation Expense – AAWC Employees (All Districts)**

21 **Q. Please explain RUCO Adjustment C-3.**

1 A. This adjustment removes 30 percent of the incentive compensation expense for AAWC  
2 employees that the Company had included in the test year.

3  
4 **Q. How did you determine the amount of incentive compensation for AAWC employees**  
5 **that the Company had included in the test year, inclusive of pro forma adjustments?**

6 A. The amount was determined based on the Company's responses to RUCO data requests,  
7 which had asked for such information, and from a review of underlying detail contained in  
8 the Excel files that were provided by the Company. The 30 percent disallowance has also  
9 been applied by the Commission to AAWC's incentive compensation expense in other  
10 recent AAWC rate cases including Docket Nos. W/SW-01303A-08-0227, as discussed in  
11 Decision No. 71410.

12  
13 **Q. Did RUCO ask AAWC data requests concerning the amount of incentive**  
14 **compensation expense that was included in the test year, inclusive of pro forma**  
15 **adjustments?**

16 A. Yes. RUCO 2-6 and RUCO 3-2 asked for such information.

17  
18 **Q. Does the information listed by AAWC in response to those data requests appear to**  
19 **accurately present the full amount of incentive compensation expense that was**  
20 **included in the test year, inclusive of pro forma adjustments?**

21 A. No, it does not. As summarized in the following table, the amounts listed by AAWC in its  
22 responses to RUCO 2-6 and RUCO 3-2 only appear to include the "corporate allocation"  
23 amounts from Account 501711 and that AAWC has included in its request, amounts

which include "12/31/2008 recorded" plus the "corporate allocation" amounts in Account 501711, which are shown in columns A, B and C of the following table:

**Incentive Plan Expense Requested by AAWC: Account 501711**

District	12/31/08 Recorded	Corporate Allocation	12/31/08 Actual	Per	
				RUCO 2-6 & RUCO 3-2	Difference
	(A)	(B)	(C)	(D)	(E)
Anthem Water	\$ 3,496	\$ 44,560	\$ 48,056	\$ 44,560	\$ 3,496
Sun City Water	\$ 4,224	\$ 58,075	\$ 62,299	\$ 58,075	\$ 4,224
Anthem/Aqua Fria Wastewater	\$ -	\$ 58,795	\$ 58,795	\$ 58,795	\$ -
Sun City Wastewater		\$ 35,906	\$ 35,906	\$ 35,906	\$ -
Sun City West Wastewater	\$ 17,753	\$ 30,382	\$ 48,135	\$ 30,382	\$ 17,753
Total	\$ 25,473	\$ 227,718	\$ 253,191	\$ 227,718	\$ 25,473

I have used the amounts listed in column C of the above table which total to \$253,191 as the basis for this adjustment. In response to RUCO 6-1, the Company clarified its previous responses and confirmed that the amounts shown in column C accurately reflect the incentive compensation expense included in its filing for these districts.

**Q. Did the Company provide a copy of its incentive compensation plan?**

A. Yes, a copy was provided in response to RUCO 2-6.

**Q. Please briefly discuss the key provisions of the incentive compensation program.**

A. According to the 2008 Annual Incentive Plan - Rewarding Achievement, the annual incentive plan ("AIP" or "Plan") is designed to reward participants for the performance results attained by such participants and the Company during the plan year. These

1 performance standards are comprised of the three following components: (1) Financial  
2 (Corporate, Divisional/Regional and State), Operational and Individual.

3 *Financial Component*

4 The financial component is based on operating income. The performance level is  
5 determined at the Corporate, Divisional/Regional and State levels. In 2008, more than  
6 85% of the operating income target for the entire Company had to be achieved before  
7 incentive compensation was awarded based on the corporate financial component of the  
8 Plan, although such an award could be made on the Divisional/Regional and State  
9 financial components if operating income exceeded 85% of the target. In addition, more  
10 than 75% of the Corporate operating income target had to be achieved in order for any  
11 payments to be made on any components of the Plan for the entire Company.

12  
13 *Operational Component*

14 The operational component is based on the following:

- 15 • Environmental Compliance: Environmental compliance is measured by "Notice of  
16 Violation ("NOV") count defined as the number of times an official notice is  
17 issued by a primacy agency for failure to comply with a federal, state or local  
18 government statute or regulation that is covered under the scope of the American  
19 Water Environmental Management Policy.
- 20  
21 • Safety Performance: Safety performance is measured on an OSHA Total  
22 Recordable Incident Rate ("ORIR") which is defined as the rate of total injuries  
23 requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on  
24 total injury reduction which by extension improves Lost Work Day Case Rate  
25 ("LWCR") and correlates more closely to workers compensation claims and costs.  
26 LWCR will remain a personal performance goal for the Operations and  
27 Operational Risk Management functions.
- 28  
29 • Customer Satisfaction: Customer satisfaction is based on the results of the annual  
30 Customer Satisfaction Survey ("CSS") conducted in the fourth quarter of each year  
31 through randomly selected customer contacts in each state.  
32

- Service Quality: Service quality is based on the annual results of the Service Quality Surveys (“SQS”) conducted throughout the year with customers having had recent contact with a customer service or field service representative.
- Service Level: Percentage of calls answered in the Customer Service Center within a certain timeframe.
- Quality Measures (Shared Services Center): (1) SSC error rate – number of financial statement errors; (2) Reconciliations – calendar year average of accounts beyond policy; and (3) Timeliness of Processes – annual percentage of processes conducted according to schedule (e.g. tax filings, consolidated financial statements, external audit information submissions, days to image & process invoices and Orcom rate changes).
- Compliance (Shared Services Center (“SSC”) – (1) External audit findings – number of unrecorded differences and topside entries; (2) internal audit findings – number of instances of deviations from policy/procedures during SOX testing; and (3) external filing requirements – annual reports and Commission reports completed by established deadlines for SSC.

Each operational component discussed above is measured as follows:

Environmental Compliance – 25%

Safety Performance – 25%

Customer Satisfaction – 25%

Service Quality – 25%

*Individual Component*

The individual component includes Performance Targets as agreed to by participants and managers within the Companywide standard performance management process. The Company will provide an AIP letter which outlines the Company component targets.

Individual performance is assessed using American Water’s Performance Management and Development Review (“PDR”) process whereby the PDR requires each individual to have five performance targets. Each of these five performance targets should be specific, measurable and aligned with the Company’s performance targets.

1     **Q.    What criteria has the Commission found important in deciding issues concerning**  
2     **utility incentive compensation in recent cases?**

3     A.    The criteria the Commission has found important in deciding this issue in recent cases are  
4     described in various orders which have addressed the treatment of utility incentive  
5     compensation expense for ratemaking purposes. In Decision No. 68487 (February 23,  
6     2006), the Commission adopted Staff's recommendation for an equal sharing of costs  
7     associated with the Southwest Gas Corporation's ("SWG") Management Incentive Plan  
8     ("MIP") expense. For example, in reaching its conclusion regarding SWG's MIP, the  
9     Commission stated in part on page 18 of Order 68487 that:

10  
11           We believe that Staff's recommendation for an equal sharing of the costs  
12           associated with MIP compensation provides an appropriate balance between  
13           the benefits attained by both shareholders and ratepayers. Although  
14           achievement of the performance goals in the MIP, and the benefits attendant  
15           thereto, cannot be precisely quantified there is little doubt that both  
16           shareholders and ratepayers derive some benefit from incentive goals.  
17           Therefore, the costs of the program should be borne by both groups and we  
18           find Staff's equal sharing recommendations to be a reasonable resolution.  
19

20           AAWC has not refuted the fact that both shareholders and ratepayers derive some benefit  
21           from incentive goals when such goals are achieved by AAWC employees.  
22

23     **Q.    Do AAWC's shareholders and customers both benefit from the achievement of**  
24     **incentive compensation program?**

25     A.    Yes. Shareholders benefit from the achievement of financial goals. Additionally,  
26     shareholders benefit from the achievement of expense reduction and expense containment

1 goals between rate cases. Shareholders and ratepayers can both benefit from the  
2 achievement of customer service goals.

3  
4 **Q. Why have you used a 30 percent disallowance for the incentive compensation for**  
5 **AAWC employees?**

6 A. The 30 percent disallowance is what the Commission had determined for AAWC  
7 incentive compensation in prior AAWC rate cases, including Decision No. 71410 and  
8 68858.

9  
10 **Q. Could a higher percentage disallowance be justified?**

11 A. I believe so. In general, incentive compensation programs can provide benefits to both  
12 shareholders and ratepayers. The removal of 50% of the incentive compensation expense,  
13 in essence, provides an equal sharing of such cost, and therefore provides an appropriate  
14 balance between the benefits attained by both shareholders and ratepayers. Both  
15 shareholders and ratepayers stand to benefit from the achievement of performance goals;  
16 however, there is no assurance that the award levels included in the Company's proposed  
17 expense for the test year will be repeated in future years.

18  
19 **Q. Please summarize your recommendation concerning AAWC's incentive**  
20 **compensation expense.**

21 A. I recommend continuing the 30 percent allocation for AAWC's incentive compensation  
22 expense to shareholders ordered by the Commission in Decision No. 71410. This results  
23 in a reduction to test year expense of \$75,959, as summarized in the table below.

Summary of Adjustments to Achievement Incentive Pay

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (14,417)	\$ (18,690)	\$ (17,639)	\$ (10,772)	\$ (14,441)	\$ (75,959)

**Q. Does this adjustment address incentive compensation expense charged to AAWC from affiliates?**

A. No. The incentive compensation charged to AAWC from affiliates as part of the affiliate Management Fee is addressed in a subsequent section of my testimony.

**C-4 Stock-Based Compensation Expense (All Districts)**

**Q. What expense for stock-based compensation has AAWC stated that it included in its filing?**

A. The Company's response to RUCO 2-25 listed the following amounts for stock-based compensation:

Amounts of Test Year Stock-Based Compensation Expense per AAWC's Response to RUCO 2-25:		
Description	Account Number	Amount
Compensation - Stock Options	501716	\$ 36,693
Compensation - Restricted Stock	501717	\$ 28,834
Compensation - Restricted Stock Units	501718	\$ 4,046
Total Test Year Stock-Based Compensation		\$ 69,573

**Q. Did you uncover conflicting information regarding the stock-based compensation expense in Account No. 501717?**

A. Yes. The Company's response to RUCO 2-25 indicated that for Account No. 501717 – Comp-Restricted Stock, the Company listed the test year amount as \$28,834. However, as shown in the table below, the referenced Company workpaper indicated that AAWC recorded a total of \$49,751 during the test year for this expense in Account 501717 for the districts that are the subject of this proceeding:

Acct.	Description	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
501717	Comp Exp-Restricted Stk	\$ 9,735	\$12,688	\$ 12,845	\$ 7,845	\$ 6,638	\$49,751

In response to RUCO 6-3, AAWC stated that the Company inadvertently provided only the Service Company portion of stock-based compensation in its response to RUCO 2-25. In addition, the Company further stated in RUCO 6-3 that due to an accounting error, some stock-based compensation was erroneously booked to an AAWC district that is not part of this proceeding. As a result, in the response to RUCO 6-3, the Company provided updated test year amounts for the Service Company and AAWC non-affiliate portions of stock-based compensation included in cost of service.

**Q. Has stock-based compensation expense been disallowed by the Commission in rate cases for other utilities?**

A. Yes. In Decision No. 69663, the Commission adopted Staff's recommendation that stock-based compensation be disallowed for Arizona Public Service Company ("APS").

1 **Q. Was the adjustment to remove APS' stock-based compensation expense made by the**  
2 **Commission in the Company's last rate case despite attempts by APS to demonstrate**  
3 **that its total compensation, including incentives, was reasonable?**

4 A. Yes. At page 36 of Decision No. 69663, the Commission rejected an argument made by  
5 APS that the Commission should look at the reasonableness of total compensation and not  
6 at how compensation is determined or its individual components, when it stated as  
7 follows:

8  
9 APS argues that the issue is whether APS compensation, including  
10 incentives, is reasonable. APS does not believe that the Commission should  
11 look at how that compensation is determined or its individual components,  
12 but rather should just look at the total compensation. The Company argues  
13 that the interests of investors and consumers are not in fundamental conflict  
14 over the issue of financial performance, because both want the Company to  
15 be able to attract needed capital at a reasonable cost...We agree with Staff  
16 that APS' stock-based compensation expense should not be included in the  
17 cost of service used to set rates...To the extent that Pinnacle West  
18 shareholders wish to compensate APS management for its enhanced  
19 earnings, they may do so, but it is not appropriate for the utility's ratepayers  
20 to provide such incentive and compensation.  
21

22  
23 **Q. Was stock-based compensation expense also disallowed in the Commission's decision**  
24 **in a rate case involving UNS Electric, Inc.?**

25 A. Yes, it was. In Decision No. 70360 at page 22, the Commission, in referencing a similar  
26 decision regarding Southwest Gas Corporation as well as APS' last rate case stated:

27  
28 For these same reasons, we agree with Staff that test year expenses should  
29 be reduced to remove stock-based compensation to officers and  
30 employees...The disallowance of stock-based compensation is consistent  
31 with the most recent rate case for Arizona Public Service Company  
32 (Decision No. 69663).  
33

1  
2 **Q. Was stock-based compensation expense removed by Staff in other recent utility rate**  
3 **cases?**

4 A. Yes. Staff also removed the utility's stock-based compensation expense in the recent rate  
5 cases of Tucson Electric Power Company, Docket No. E-01933A-07-0402 and Southwest  
6 Gas Corporation, Docket No. G-01551A-07-0504.<sup>4</sup>

7  
8 **Q. Please discuss the reasons for removing stock-based compensation.**

9 A. Ratepayers should not be required to pay executive compensation that is based on the  
10 performance of the Company's (or its parent company's) stock price. Additionally, prior  
11 to being required to expense stock options for financial reporting purposes under  
12 Statement of Financial Accounting Standards No. 123 Revised (SFAS 123R), the cost of  
13 stock options was typically treated as a dilution of shareholders' investments, i.e., it was a  
14 cost borne by shareholders. While SFAS 123R now requires stock option cost to be  
15 expensed on a company's financial statements, this does not provide a reason for shifting  
16 the cost responsibility for stock options from shareholders to utility ratepayers.

17  
18 **Q. Please explain your adjustment to AAWC's Stock-Based Compensation.**

19 A. As shown on Schedule C-4, using the updated amounts reference above, this adjustment  
20 decreases test year expense by \$123,782 to reflect the removal of AAWC's stock-based  
21 compensation for the AAWC districts in the current rate case. The expense of providing

---

<sup>4</sup> Staff's adjustment to remove TEP's stock-based compensation was incorporated into a settlement approved by the Commission in Decision No. 70628. The ALJ's recommended opinion and order in Docket No. G-01551A-07-0504 adopted Staff's adjustment to remove stock-based compensation expense. The Commission's Decision No 70665 in that case adopted the adjustment to remove expense for Southwest Gas's stock-based compensation expense.

1 stock options and other stock-based compensation to officers and employees beyond their  
2 other compensation should be borne by shareholders and not by ratepayers.

3  
4 **Q. What adjustment do you recommend for AAWC's stock-based compensation**  
5 **expense by district?**

6 A. As shown on Schedule C-4, expense for the AAWC districts in the current rate case is  
7 reduced by \$123,782. The adjustment is summarized in the table below.

Summary of Adjustments to Stock-Based Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (24,222)	\$ (31,568)	\$ (31,959)	\$ (19,518)	\$ (16,515)	\$ (123,782)

8  
9  
10 **C-5 Normalized Pension Expense (All Districts)**

11 **Q. What amount of pension expense has AAWC requested?**

12 A. AAWC has requested pension expense of \$2.090 million, before allocation among  
13 districts, based on funding payments into the defined benefit pension plan trust for 2009.

14  
15 **Q. How does the \$2.090 million pro forma amount used by AAWC for Pensions**  
16 **compare with the actual recorded expense in recent years?**

17 A. It is significantly higher than any amount for the last five years, 2004-2008, as shown in  
18 the following table:

**Comparison of Annual Pension Amounts**

		AAWC Request Exceeds	
Year	Amount	By Amount	Percent
Actual Recorded:			
2004	\$ 146,893 [a]	\$ 1,943,107	1322.8%
2005	\$ 317,798 [a]	\$ 1,772,202	557.7%
2006	\$ 1,013,141 [a]	\$ 1,076,859	106.3%
2007	\$ 903,222 [a]	\$ 1,186,778	131.4%
2008	\$ 1,734,561 [a]	\$ 355,439	20.5%
Averages:			
2004-2008	\$ 823,123	\$ 1,266,877	153.9%
2006-2008	\$ 1,216,975	\$ 873,025	71.7%
2007-2008	\$ 1,318,892	\$ 771,109	58.5%
AAWC Requested	\$ 2,090,000 [b]		
RUCO Normalized	\$ 1,318,892 [c]		

Notes and Source

[a] Annual recorded amounts from response to RUCO 2-60

[b] Company's requested amount is from AAWC Exhibit SLH-2  
and is based upon 2009 funding contributions

[c] Based on two-year average, 2007-2008

The 2009 amount used by AAWC is abnormally high, and the unusually high amount appears to be driven by the poor stock market performance that occurred with the worldwide financial crises that began unfolding in the second half of 2008.

**Q. Do you have other concerns about AAWC's request for pension expense in this case?**

A. Yes, the amount requested by AAWC does not appear to have been based on its net periodic pension cost that is accrued pursuant to Statement of Financial Accounting Standards No. 87 ("FAS 87") but rather on a funding amount, which is subject to management discretion. As explained in response to RUCO 2-52, AAWC's requested pension expense "is based upon the funding requirement for the upcoming year based upon the actuarial report of Towers Perrin." A copy of that actuarial report was provided in response to RUCO 2-52.

1     **Q.     What is shown in that actuarial report?**

2     A.     The actuarial report provided in the response to RUCO 2-52, dated March 2009, is for the  
3           American Water Works Company, Inc. (AWWC) defined benefit pension plan, and  
4           includes information on the following:

- 5                 •   Pension Cost for Fiscal Year Ending December 31, 2009
- 6                 •   Employer Contributions for Plan Year Beginning July 1, 2008

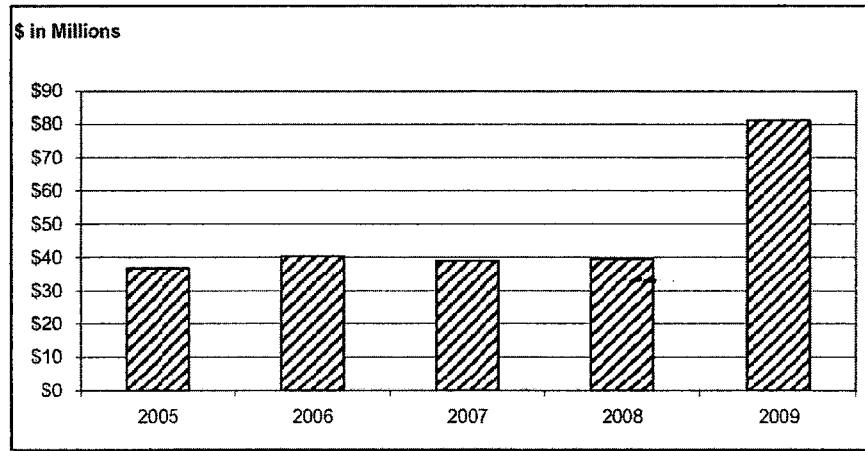
7  
8     **Q.     Does the actuarial report show the net periodic pension cost per FAS 87?**

9     A.     Yes, it does.  
10

11    **Q.     What was the FAS 87 Pension Cost amount and how does it compare with prior**  
12       **years?**

13    A.     The FAS 87 pension cost for January 1, 2009 for AWWC is listed on page MS-2 of the  
14           report and is \$81,116,478. The 2009 expense is much higher than in previous years as  
15           shown in the "History of Pension Cost" tables from page MS-4 of the report, which are  
16           reproduced for ease of reference below:

### History of Pension Cost



The following table shows the relative dollar amounts in total and the percent of covered pay:

### History of Pension Cost

-----Pension cost-----

<i>Fiscal year</i>	<i>Amount</i>	<i>Percent of covered pay</i>	<i>Discount rate</i>
2009*	\$ 81,116,478	26.1%	6.12%
2008*	39,625,996	13.4	6.27
2007*	38,968,697	13.5	5.90
2006	40,327,960	16.7	5.65
2005	36,845,672	15.5	6.00

\* All values on or after 2007 reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

As can be seen, the total cost for 2009 has more than doubled the cost of any of the prior years, 2005 through 2008. Additionally, the cost as a “percent of covered pay” at 26.1 percent for 2009 is also almost double the 13.4 percent and 13.5 percent for the prior years 2008 and 2007, respectively. As shown on page SI-3 of the actual report, the dollar cost

per active participant is \$16,626 for fiscal 2009, which is more than double the comparable amount of \$7,842 for fiscal 2008.

**Q. Does the actuarial report show how the pension cost under FAS 87 changed from 2008 to 2009?**

**A.** Yes. This is shown at page MS-2, and summarized in the following table:

**Change in Pension Cost and Overfunded (Underfunded) PBO**

The pension cost increased from \$39,625,996 in fiscal 2008 to \$81,116,478 in fiscal 2009 and the underfunded PBO increased from \$(265,135,065) on January 1, 2008 to \$(479,814,107), as set forth below:

	<b>Pension Cost</b>	<b>Funded Position</b>
Prior year	\$ 39,625,996	\$ (265,135,065)
Change due to:		
▶ Expected based on prior valuation	(2,982,015)	42,493,168
▶ Loss (gain) from noninvestment experience	1,762,793	(16,002,728)
▶ Loss (gain) from asset experience	37,809,962	(209,099,734)
▶ Assumption changes	4,899,742	(32,069,748)
▶ Plan amendments	<u>0</u>	<u>0</u>
Current year	\$ 81,116,478	\$ (479,814,107)

As can be seen, there was a loss on the assets of over \$209 million which resulted in an increase to the pension cost of approximately \$37.8 million. Page MS-3 of the report lists the following as "significant reasons" for the changes:

- The return on the fair value of plan assets since the prior measurement date was less than expected, which increased the underfunded PBO and increased pension cost.
- The assumed rate of future salary increases was lowered by 25 basis points, which decreased pension cost and decreased the underfunded PBO.
- The overtime assumption for union participants and nonunion, nonexempt participants was increased, which increased the underfunded PBO and decreased pension cost.
- The discount rate for benefit obligations was changed from 6.27% to 6.12%, which increased pension cost and increased underfunded PBO.

- Minor losses from what was assumed for plan demographics occurred, which increased pension cost and increased underfunded PBO.

As described on page SI-1 of the actuarial report, the plan experienced a rate of return of negative 24.6 percent in 2008, and had an investment return of negative \$160 million. This compares with a negative investment return of \$41.9 million in 2007, which equated to a negative return of approximately 6.6 percent.

**Q. You mentioned that the return on the AWWC defined benefit pension plan assets was a negative 24.6 percent in 2008, which contributed to the abnormally high pension expense that AAWC is seeking. Did the Company provide the return on pension plan assets for 2009?**

**A. Yes.** The Company's response to RUCO 2-95 states that, "the total return year-to-date 2009 is 20.34%."

**Q. Does the actuarial report describe AAWC's funding policy for its defined benefit pension plan?**

**A. Yes.** This is discussed at page MS-6, as follows:

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. American Water makes plan contributions each plan year in four installments, one in August, one in November, one in February, and one in May, which, in total, suffice to cover the minimum funding requirement for the plan year, and, individually, suffice to cover the quarterly requirements in October, January, April, and July respectively of each plan year.

Plan year contributions were made in the amounts of \$15,000,000 during August of 2008, \$15,000,000 during November of 2008, and \$17,100,000

1 during February of 2009. Additionally, \$17,100,000 is expected to be  
2 funded during May of 2009.  
3

4 **Q. Are the funding contributions discretionary with management?**

5 A. Yes. Within limits, the funding contributions for a defined benefit pension plan are  
6 discretionary with AWWC management.  
7

8 **Q. What are the limits based upon?**

9 A. The limits typically involve looking at three areas:

10 (1) the minimum required contribution under ERISA;

11 (2) the contribution needed to meet the funding target under the Pension Protection Act of  
12 2006 ("PPA"); and

13 (3) the maximum tax deductible contribution.

14 The ERISA and PPA analysis is sometimes used to establish the minimum amount of  
15 annual funding. Frequently, there can be an extremely wide range between some of these  
16 measures. For example, as described in the actuarial report on pages MS-5 and MS-6, the  
17 estimated maximum tax deductible contribution was \$737.3 million and the minimum  
18 funding requirement under the PPA was approximately \$64.2 million. These figures for  
19 the plan year beginning July 1, 2008 are also shown on pages SI-6 and SI-8, along with  
20 comparative information from the prior year. The difference between the maximum tax  
21 deductible contribution of \$737.3 million and the minimum required contribution of \$64.2  
22 million is over \$673 million, and the amount to choose to contribute to the defined benefit  
23 plan trust within this range is up to management discretion.  
24

1     **Q.     What do you recommend for pension expense in the current case?**

2     A.     I recommend using a two-year average of the FAS 87 amounts for pension expense to  
3            establish a normalized level for AAWC in the current case. The use of an average is  
4            needed because the 2009 results are abnormally high and reflect a FAS 87 amount that  
5            almost doubled the 2007 and 2008 experience, largely due to the poor investment returns  
6            experienced by the pension trust in the latter part of 2008 and early 2009.

7  
8     **Q.     Is it widely accepted to use the FAS 87 amounts for establishing pension expense in**  
9            **utility ratemaking proceedings?**

10    A.     Based on my experience, yes it is. Regulatory commissions typically either base pension  
11            expense upon the FAS 87 accruals, or use the cash funding contributions. Because the  
12            range of potential cash funding contributions has become so wide in recent years, and is  
13            subject to such a degree of management discretion, I believe it is better to base the  
14            ratemaking allowance for pension expense on the FAS 87 results, normalized to remove  
15            the abnormal results that affected the AWWC defined benefit plan for 2009.

16  
17    **Q.     How does your recommendation for a normalized level of pension cost compare with**  
18            **prior years, and with AAWC's request, in terms of a cost per participant and**  
19            **percent of covered pay?**

20    A.     These comparisons are presented in the following tables:

Pension Cost Per Active Participant and As Percent of Covered Pay			
Period	Per Active Participant	Percent of Covered Pay	Notes/ Source
Fiscal 2006	\$ 8,836	16.70%	[a]
Fiscal 2007	\$ 7,700	13.50%	[a]
Fiscal 2008	\$ 7,842	13.40%	[a]
Fiscal 2009	\$ 16,626	26.10%	[a]
RUCO Normalized	\$ 11,374	14.50%	[b]
AAWC Requested	\$ 19,539	24.90%	[c]
Notes/Source			
[a] Per AWWC actuarial reports, May 2007 and March 2009			
[b] RUCO adjustment, percent of covered pay estimated			
[c] AAWC adjustment, percent of covered pay estimated			

1  
2  
3 **Q. Has the parent company, AWWC, closed its defined benefit plan to new employees?**

4 A. Yes. In general, employees hired or rehired after January 1, 2006 are not eligible to  
5 participate in the AWWC defined benefit pension plan.<sup>5</sup>

6  
7 **Q. Is closing or limiting participation in defined benefit pension plans consistent with an**  
8 **overall trend?**

9 A. Yes, it certainly appears to be. For example, in March 2009, the U.S. Government  
10 Accountability Office issued a report (GAO-09-291, dated March 30, 2009)<sup>6</sup>, which  
11 concluded that:

12  
13 **The number of private defined benefit (DB) pension plans, an important**  
14 **source of retirement income for millions of Americans, has declined**  
15 **substantially over the past two decades. For example, about 92,000**  
16 **single-employer DB plans existed in 1990, compared to just under**  
17 **29,000 single-employer plans today. Although this decline has been**  
18 **concentrated among smaller plans, there is a widespread concern that**  
19 **large DB plans covering many participants have modified, reduced, or**

<sup>5</sup> Details of eligibility are described in the March 2009 actuarial report at page SI-23, including certain exceptions for certain union groups.

<sup>6</sup> A copy of the complete GAO study can be obtained online at: <http://www.gao.gov/new.items/d09291.pdf>

1 **otherwise frozen plan benefits in recent years.** GAO was asked to  
2 examine (1) what changes employers have made to their pension and benefit  
3 offerings, including to their defined contribution (DC) plans and health  
4 offerings over the last 10 years or so, and (2) what changes employers might  
5 make with respect to their pensions in the future, and how these changes  
6 might be influenced by changes in pension law and other factors. To gather  
7 information about overall changes in pension and health benefit offerings,  
8 GAO asked 94 of the nation's largest DB plan sponsors to participate in a  
9 survey; 44 of these sponsors responded. These respondents represent about  
10 one-quarter of the total liabilities in the nation's single-employer insured DB  
11 plan system as of 2004. The survey was largely completed prior to the  
12 current financial market difficulties of late 2008.

13  
14 GAO's survey of the largest sponsors of DB pension plans revealed that  
15 **respondents have made a number of revisions to their retirement**  
16 **benefit offerings over the last 10 years or so. Generally speaking, they**  
17 **have changed benefit formulas; converted to hybrid plans (such plans**  
18 **are legally DB plans, but they contain certain features that resemble DC**  
19 **plans); or frozen some of their plans.** Eighty-one percent of responding  
20 sponsors reported that they modified the formula for computing benefits for  
21 one or more of their DB plans. Among all plans reported by respondents, 28  
22 percent of these (or 47 of 169) plans were under a plan freeze--an  
23 amendment to the plan to limit some or all future pension accruals for some  
24 or all plan participants. The vast majority of respondents (90 percent, or 38  
25 of 42 respondents) reported on their 401(k)-type DC plans. Regarding these  
26 DC plans, a majority of respondents reported either an increase or no change  
27 to the employer or employee contribution rates, with roughly equal  
28 responses to both categories. About 67 percent of (or 28 of 42) responding  
29 firms plan to implement or have already implemented an automatic  
30 enrollment feature to one or more of their DC plans. With respect to health  
31 care offerings, all of the (42) responding firms offered health care to their  
32 current workers. Eighty percent (or 33 of 41 respondents) offered a retiree  
33 health care plan to at least some current workers, although 20 percent of (or  
34 8 of 41) respondents reported that retiree health benefits were to be fully  
35 paid by retirees. Further, 46 percent of (or 19 of 41) responding firms  
36 reported that it is no longer offered to employees hired after a certain date.  
37 At the time of the survey, most sponsors reported no plans to revise plan  
38 formulas, freeze or terminate plans, or convert to hybrid plans before 2012.  
39 When asked about the influence of recent legislation or changes to the rules  
40 for pension accounting and reporting, responding firms generally indicated  
41 these were not significant factors in their benefit decisions. Finally, a  
42 minority of sponsors said they would consider forming a new DB plan.  
43 Those sponsors that would consider forming a new plan might do so if there  
44 were reduced unpredictability or volatility in DB plan funding requirements  
45 and greater scope in accounting for DB plans on corporate balance sheets.  
46 **The survey results suggest that the long-time stability of larger DB**

plans is now vulnerable to the broader trends of eroding retirement security. The current market turmoil appears likely to exacerbate this trend.

**Q. What type of pension plan does AWWC offer to employees hired after January 1, 2006?**

**A.** The Company's pension expense workpaper states: "Beginning 1/1/06, the Company no longer offers a Pension Plan to new hires. Instead, new hires get the Defined Contribution Plan as a benefit. The Company will contribute 5.25% of Base Pay into a Defined Contribution Plan."

**Q. How does the cost of the Defined Contribution Plan compare with the cost of the Defined Benefit plan?**

**A.** The cost comparison is shown in the following table:

Average Cost Per Active Participant				
As Adjusted	AWWC Defined Benefit Plan	Defined Contribution Plan	Excess Cost for Defined Benefit	Percent Excess for DB Plan
RUCO Normalized	\$ 11,374	\$ 2,628	\$ 8,746	333%
AAWC Requested	\$ 19,539	\$ 2,628	\$ 16,911	643%
Source: Pension adjustment workpaper				

As can be seen, the defined benefit plan is substantially more costly on a "per active participant" basis.

**Q. Are you recommending any adjustment for the expense related to AAWC's Defined Contribution Plan?**

**A.** No.

1  
2 **Q. Does RUCO Adjustment C-5 cover pension costs that are charged to AAWC from**  
3 **affiliated companies via the Management Fee?**

4 A. No. RUCO Adjustment C-5 addresses the amount of normalized pension expense for  
5 AAWC employees. There are significant additional charges to AAWC from the affiliated  
6 Management Fee which include charges for pensions as well as numerous other expenses.  
7 The affiliated charges to AAWC from the Management Fee, including the affiliated  
8 charges for pensions, are addressed in a subsequent section of my testimony.

9  
10 **Q. What specific adjustment do you recommend?**

11 A. I recommend an adjustment to decrease the Company's requested amount of pension  
12 expense by \$280,339 as shown on Attachment RCS-2 and RCS-3, Schedule C-5. The  
13 amount of pension expense requested by AAWC for each district should be reduced by the  
14 amounts listed below:

Summary of Adjustments to Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (39,203)	\$ (92,636)	\$ (72,483)	\$ (25,187)	\$ (50,830)	\$ (280,339)

15  
16  
17 **Q. Please explain the calculations on Schedule C-5.**

18 A. The Company provided actual AAWC recorded pension expense for prior years in  
19 response to RUCO 2-60. I have used the average of 2007 through 2008 as the basis for a  
20 normalized pension expense allowance. I have replaced the \$2,090,643 abnormally high

1           2009 result that AAWC used with the \$1,318,892 normalized amount, and ran this  
2           through the Company's detailed Excel file [AZ 2008 Labor\_Pension Adjustment.xls] to  
3           derive an adjustment to decrease the Company's requested pension expense by \$280,339  
4           for all of the districts in the current case combined. Schedule C-5 shows the amount of  
5           adjustment for each of the five districts in this proceeding. Schedule C-5.1, which consists  
6           of two pages, reflects the results from using the recommended allowable level, based on  
7           the three-year average to determine the normalized amount.

8       ***C-6 Normalized Other Post Employment Benefits Expense (All Districts)***

9       **Q.   What amount of Other Post Employment Benefits ("OPEB") expense has AAWC**  
10       **used?**

11      A.   As shown on Company Exhibit SLH-14, AAWC has used an OPEB expense of \$95,763,  
12           before allocation among AAWC districts and reduced it by a capitalization rate of 18.3  
13           percent, to derive its proposed expense of \$78,238.

14  
15      **Q.   How does the \$95,763 pro forma amount used by AAWC for OPEBs compare with**  
16       **the actual recorded expense in recent years?**

17      A.   It is significantly higher than any amount for the last five years, 2004-2008, as shown in  
18           the following table:

**Comparison of Annual OPEB Amounts**

		AAWC Request Exceeds	
Year	Amount	By Amount	Percent
Actual Recorded:			
2004	\$ 73,823 [a]	\$ 21,940	29.7%
2005	\$ 63,196 [a]	\$ 32,567	51.5%
2006	\$ 74,032 [a]	\$ 21,731	29.4%
2007	\$ 62,603 [a]	\$ 33,160	53.0%
2008	\$ 75,723 [a]	\$ 20,040	26.5%
Averages:			
2004-2008	\$ 69,875	\$ 25,888	37.0%
2006-2008	\$ 70,786	\$ 24,977	35.3%
2007-2008	\$ 69,163	\$ 26,600	38.5%
AAWC Requested	\$ 95,763 [b]		
RUCO Normalized	\$ 69,163 [c]		

**Notes and Source**

[a] Annual recorded amounts from response to RUCO 2-60

[b] Company's requested amount is from AAWC Exhibit SLH-14

[c] Based on two-year average, 2007-2008

**Q. Please explain RUCO Adjustment C-6.**

A. This adjustment is shown on Schedule C-6 of Attachments RCS-2 and RCS-3 for water and wastewater districts, respectively. This adjustment normalizes the OPEB expense, using an average of 2007-2008 as the basis for deriving a normal level for ratemaking purposes. This adjustment reduces the \$95,763 amount used by AAWC to \$69,163, before capitalization, and reduces the OPEB expense from \$78,238 to \$56,529, after capitalization. The adjustment for each of the districts by the amounts is shown on Schedule C-6 of Attachments RCS-2 and RCS-3. For all of the districts included in the current rate case filing, the adjustment decreases OPEB expense by \$10,389. The reduction to each district is shown in the following table:

Summary of Adjustments to OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (2,033)	\$ (2,650)	\$ (2,682)	\$ (1,638)	\$ (1,386)	\$ (10,389)

**C-7 Donations, Membership Dues, Advertising and Miscellaneous (All Districts)**

**Q. Please explain RUCO Adjustment C-7.**

A. This adjustment removes expenses for donations, membership dues, certain advertising expense, and miscellaneous expenses, as shown on Attachment RCS-2, Schedule C-7. These costs, which were identified from AWWC's response to RUCO 2-43, are discretionary and not needed for the provision of safe and reliable utility service.

**Q. Was an adjustment made to remove similar expenses in AAWC's last rate case?**

A. It appears so. Decision No. 71410 at pages 35-36 states that: "The parties are in agreement that downward expense adjustments should be made to remove civic and charitable contributions, membership dues, and other related miscellaneous expenses not typically recovered from customers, from each of the seven districts through the 4-factor allocation methodology ..."

**Q. What adjustment should be made in the current AAWC's rate case?**

A. The adjustment to remove expenses not typically recovered from customers in the current rate case is shown on Attachment RCS-2, Schedule C-7, and summarized in the following table:

Summary of Adjustments to Dues, Donations & Misc. Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (3,250)	\$ (4,237)	\$ (4,289)	\$ (2,620)	\$ (2,216)	\$ (16,612)

**C-8 Tank Maintenance Reserve Fund Accrual (Sun City Water)**

**Q. What has AAWC requested for a Tank Maintenance Reserve Fund Accrual?**

A. AAWC is requesting an additional expense for Sun City Water of \$445,000 annually for a Tank Maintenance Reserve Fund Accrual, as shown on Company Schedule C-2, page 29.

**Q. What was the amount of test year Tank Maintenance Expense for Sun City Water?**

A. Per AAWC's Schedule C-2, page 29, line 15, the test year Tank Maintenance Expense for Sun City Water was \$29,062.

**Q. In the current case, did you request AAWC to provide its actual tank painting expense so that a normalization adjustment could be considered?**

A. Yes. RUCO 2-91(d) asked AAWC to:

"Provide the Company's actual tank painting expense, by district, by year, for the ten-year period through 2009. Also indicate which specific tanks were painted in each year, and the cost of painting each tank."

RUCO set 2 of data requests is dated December 21, 2009.

**Q. What information did AAWC provide in its response to RUCO 2-91(d)?**

A. AAWC's response to RUCO 2-91(d) stated in full: "Please see the attachment labeled "RUCO 2-91d Tank Painting Expenditures.xls" for maintenance detail by district.

1 Invoices are also included in this file.” The response only included information for the  
2 2008 test year, and not for the ten-year period through 2009 as had been requested.  
3 RUCO has notified the Company about its deficient response; however, to date the  
4 Company has not supplemented its initial response to RUCO 2-91(d) to provide the  
5 requested information.

6  
7 **Q. Is the current case the first time AAWC has requested charging ratepayers in**  
8 **advance for a Tank Maintenance Reserve?**

9 A. No. The Commission recently rejected a similar proposal by AAWC in Docket Nos. W-  
10 01303A-08-0227 et al. which would apparently have applied for all of the water districts  
11 for which AAWC had sought rate increases in that case.

12  
13 **Q. Please discuss the “Tank Maintenance Reserve” issue from Docket Nos. W-01303A-**  
14 **08-0227 et al.**

15 A. Decision No. 71410 discusses this issue at pages 36-37. At page 36, Decision No. 71410  
16 describes the AAWC proposal as follows:

17 The Company proposed a reserve for water tank maintenance expense  
18 which would provide an annual allowance for tank maintenance costs in  
19 operating expenses. Under the Company’s proposal, the funds collected  
20 through rates would be recorded in a deferred liability account labeled  
21 Reserve for Tank Maintenance, and the Reserve for Tank Maintenance  
22 account would be charged as tank maintenance expenses are incurred,  
23 reducing the balance of funds reserved.

24  
25 RUCO had not opposed that AAWC adjustment in that docket, but Staff did. The

26 Commission concluded at page 37 of Decision No. 71410 concerning this as follows:

27 ... we do not believe that it is necessary or reasonable to adopt the  
28 Company’s proposal for advance funding of a Reserve for Tank

1 Maintenance at this time. Because the tank maintenance expense reserve  
2 account balance proposed by the Company is not based on known and  
3 measureable Company expenditures, we find the normalization of tank  
4 maintenance expenses proposed by Staff, which is based on a three year  
5 average of expenses for each district, to be the more reasonable alternative.  
6 Staff's normalization adjustment will therefore be adopted for each of the  
7 six water districts.  
8

9 In summary, AAWC's proposed Reserve accrual was rejected, and the Commission  
10 adopted a normalized amount based on a three-year average, as had been proposed by  
11 Staff.  
12

13 **Q. Please explain RUCO adjustment C-8.**

14 A. This adjustment is shown on Attachment RCS-2, Schedule C-8 and removes the \$445,000  
15 additional pro forma accrual that AAWC seeks for Sun City Water to fund a Tank  
16 Maintenance Reserve. The Company seeks to collect from ratepayers in advance for tank  
17 maintenance. This Company request should be rejected because the tank maintenance  
18 expense reserve account balance proposed by the Company is not based on known and  
19 measureable Company expenditures and therefore, not necessary or reasonable to adopt  
20 the Company's proposal for advance funding of a Reserve for Tank Maintenance at this  
21 time. As noted above, a similar AAWC proposal was opposed by Staff and rejected by  
22 the Commission in Decision No. 71410.  
23

24 ***Affiliated Management Fees (All Districts)***

25 **Q. What affiliate companies/departments are charging Management Fees to AAWC?**

26 A. American Water Works Service Company (AWWSC) appears to be the primary affiliate  
27 that is charging Management Fees to AAWC. The Company's workpapers indicate that

1 the following organizations or departments have charged Management Fees to AAWC  
2 during the test year:

3 Belleville Lab

- 4 • Call Center
- 5 • Central Region
- 6 • Corporate
- 7 • ITS
- 8 • Northeast Region
- 9 • Shared Service Center
- 10 • Southeast Region
- 11 • Supply Chain
- 12 • Western Region

13  
14 **Q. Does it appear that there may be overlap between the functions and services that are**  
15 **being paid for in the affiliated Management Fee charges to AAWC from**  
16 **“Corporate”, “Western Region” and possibly others?**

17 **A.** Yes. The charges from “Corporate” and from the “Western Region” appear to include  
18 charges to AAWC for many of the same types of functions as summarized in the  
19 following table:

Functions Charged to AAWC In the Affiliate Management Fee	
From "Corporate"	From "Western Region"
Administration	Administration
Audit	
Communications	Communications
Finance	Finance
Human Resources	Human Resources
Legal	Legal
Operations	Operations
Rates & Revenue	
Risk Management	Risk Management
Water Quality	Water Quality
	Customer Service
	Engineering

1  
2  
3 **Q. Does it appear that the affiliated Management Fee charges to AAWC have received a**  
4 **high degree of regulatory scrutiny in recent AAWC rate cases?**

5 **A.** It does not.  
6

7 **Q. Have you been able to thoroughly review the affiliated Management Fee charges to**  
8 **AAWC in the current AAWC rate case?**

9 **A.** Not in the detail that these affiliated charges deserve. I have asked and reviewed  
10 discovery concerning some of the costs that have been included in AAWC's claim for  
11 affiliated Management Fees.  
12

13 **Q. Have you uncovered other information on regulatory commission reviews of Service**  
14 **Company charges to other American Water Works operating utilities, similarly**  
15 **situated to AAWC, of which you believe the Commission should be aware?**

1 A. Yes. It has recently come to my attention that the California Public Utilities Commission  
2 (“CPUC”) Division of Ratepayer Advocates (“DRA”) sponsored and presented a  
3 regulatory audit of California-American Water Company’s (“Cal-Am”) 2009 test year  
4 revenue requirement, including a detailed review of General Office (“GO”) and affiliated  
5 Service Company charges to that water utility. Notably, out of the approximately \$16.8  
6 million in General Office expense for the 2009 test year that Cal-Am had requested, the  
7 DRA-sponsored detailed audit of such expenses, which included a review of affiliated  
8 Service Company charges to Cal-Am (the regulated water utility), recommended  
9 adjustments to decrease that expense by approximately \$3.6 million, and recommended an  
10 adjusted level of approximately \$13.2 million. The \$3.6 million represented a reduction  
11 of approximately 21.5 percent to the \$16.8 million that had been requested by Cal-Am for  
12 such costs.

13 Section 6.3 of the CPUC’s Decision No. 97-07-021 (July 9, 2009) discusses its  
14 review of such charges. The CPUC determined that Cal-Am had not experienced  
15 significant customer growth since its last general rate case, and required that Cal-Am  
16 “must overcome a heavy burden to establish that the proposed increases will result in  
17 reasonable rates.” Of those GO and affiliated Service Company adjustments identified by  
18 the DRA, the CPUC adopted an allowed amount of approximately \$13.6 million, ordering  
19 reductions based largely on the DRA-recommended adjustments, and reduced Cal-Am’s  
20 request by approximately \$3.2 million, or approximately 19 percent. The CPUC also  
21 determined that that DRA’s proposed adjustments brought Cal-Am’s overall proposed  
22 increase for GO costs into line with a benchmark comprised of inflation and customer  
23 growth.

1           Some of the DRA's recommended adjustments in that recent Cal-Am rate case  
2           appear to be for similar costs that are being charged to AAWC by AWWSC, including  
3           cost for the AWWSC Business Development, and for concerns regarding the over-  
4           allocation of Service Company charges to the regulated utility subsidiaries and  
5           corresponding under-allocation to non-regulated businesses owned and operated by  
6           American Water Works and its subsidiaries, and increased costs allocated to Cal-Am for  
7           the national Service Company's Customer Service Center.

8  
9       **Q.    Was there a subsequent modification to the CPUC's Decision No. 97-07-021?**

10      A.    The CPUC allowed Cal-Am to file a petition, which Cal-Am submitted on October 7,  
11           2009, wherein Cal-Am petitioned the Commission to modify Decision 09-07-021  
12           regarding General Office charges. The primary result of that petition appears to have been  
13           a correction to an allocation to non-regulated operations, specifically, a reversal of the  
14           Commission's allocation of 12 percent of the costs of six National Service Company  
15           functions to non-regulated affiliate functions, along with some other allocation corrections  
16           of less consequence.

17  
18      **Q.    Have the Management Fees of AWWSC been reviewed in other utility rate cases?**

19      A.    To some extent, it appears they have. The results appear to vary on a case-by-case basis.  
20           Each regulatory jurisdiction that regulates water and wastewater utilities owned by  
21           AWWC makes its own determinations as to which costs are allowed or disallowed.

22

1     **Q.     How have you utilized the information you obtained from CPUC Decision No. 97-07-**  
2     **021 in the current AAWC rate case?**

3     A.     I used it as a source of background information, and asked AAWC discovery questions to  
4     help identify questionable affiliate Management Fee expenses charged to AAWC that  
5     perhaps should be the subject of ratemaking disallowances or adjustments. I will be  
6     discussing specific adjustments that should be made in the current AAWC rate case in  
7     subsequent sections of my testimony.

8  
9     **Q.     Please briefly describe the Management Fees that AAWC incurs from affiliates.**

10    A.     A considerable amount of AAWC's expenses come from affiliated company Management  
11    Fee charges. For the 2008 test year, AAWC recorded affiliated Management Fees charged  
12    to O&M expenses of approximately \$11.62 million, per the Company's response to  
13    RUCO 4-1. In addition, AAWC is requesting a pro forma adjustment to increase this  
14    expense by approximately \$358,000.

15  
16    **Q.     What pro forma adjustments did AAWC make to the affiliated Management Fees?**

17    A.     AAWC made three pro forma adjustments to increase the net amount of affiliated  
18    Management Fee expense above the amount recorded in the 2008 test year for the five  
19    districts by approximately \$358,000 as summarized below:

**AAWC Affiliate Management Fee Pro Formas**

AAWC Adj.	Description	Increase (Decrease)
MHK-3	Increase labor by 4% and benefits by 22%	\$ 364,586
MHK-4	Increase "Other" by 4%	\$ 81,530
MHK-5	Remove costs for corporate divestiture and non-recurring projects	\$ (88,188)
	Net Increase to Test Year Recorded Amount of Affiliate Management Fees	\$ 357,928

1  
2  
3 **Q. How have you adjusted AAWC's request for Affiliate Management Fees?**

4 **A.** I have adjusted the affiliated Management Fees requested by AAWC in the following  
5 manner:

- 6 • I have allowed the 4 percent pay increase that AAWC represents occurred in  
7 March 2009.<sup>7</sup>
- 8 • I accepted AAWC's adjustment to remove one-time charges associated with  
9 corporate divestiture and non-recurring projects.
- 10 • I reversed AAWC's proposed 4 percent pro forma increase for "Other Expense"  
11 (Adjustment C-9).
- 12 • I removed AAWC's proposed 22 percent increase in employee benefits, which  
13 includes a one-year 72.92 percent increase for pensions and a 26.34 percent  
14 increase for OPEB, and assumed 4 percent increases for a number of other items,  
15 including state and federal unemployment taxes (Adjustment C-10).
- 16 • I removed all incentive compensation expense included in the Management Fees  
17 (Adjustment C-11).

<sup>7</sup> RUCO has agreed in the past to post test year wage increases that took place shortly after the end of the test year. RUCO believes that the consistent application of regulation is good public policy and provides for a stable regulatory environment. However, given the downturn in the economy, Arizona's high unemployment and foreclosure rate, RUCO may consider disallowing the post test year wage increase in subsequent testimony.

- I adjusted the 2008 recorded pension amount to a normalized amount based on a two-year average of 2007-2008 (Adjustment C-12).
- I adjusted the 2008 recorded OPEB amount to a normalized amount based on a two-year average of 2007-2008 (Adjustment C-13).
- I removed the cost for the AWWSC "Business Development" function (Adjustment C-14).

Each of these adjustments is discussed in a subsequent section of my testimony.

***C-9 Affiliate Management Fees – Remove 4% Increase to "Other Expense"***

**Q. Please summarize your recommended adjustment.**

A. This adjustment removes AAWC's requested post-test year increase to Affiliate Management Fees of 4 percent for "Other Expense". Expense for the five districts is reduced by \$81,530 as shown on Schedule C-9 and summarized on the table below.

Summary of Adjustments to Management Fees - Other Expenses

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (15,954)	\$ (20,793)	\$ (21,050)	\$ (12,855)	\$ (10,878)	\$ (81,530)

***C-10 Affiliate Management Fees – Remove 22.22% Post Test Year Increase for Affiliate Employee Benefits***

**Q. Please explain Adjustment C-10.**

A. This adjustment removes AAWC's requested post-test year increase to Affiliate Management Fees for a 22.22 percent increase in affiliate employee benefit costs. The

Company has requested percentage increases in affiliate employee benefits expense and payroll taxes as follows:

Post Test Year Percentage Increases In Affiliate Employee Benefits Requested by AAWC	
Account	Percent Increase Over 2008
504100 Group Insurance	0.00%
505100 PBOP	26.34%
506100 Pension	72.92%
507100 401k	4.00%
508100 EIP	4.00%
508101 DCP	4.00%
508200 ESPP Oper AG	4.00%
685320 FUTA	4.00%
685325 FICA	4.00%
685350 SUTA	4.00%
Affiliate Employee Benefits Weighted Average Increase	22.22%

The affiliate expenses for pensions and OPEB (PBOP) are being addressed below, by adjusting the 2008 test year recorded amount to a normalized amount, based on a three-year average of 2006-2008. AAWC has failed to substantiate that the other expense, such as affiliate federal and state unemployment taxes and other benefits should be increased beyond the test year recorded level. Expense for the five districts is reduced by \$301,673 as shown on Schedule C-10, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Employee Benefits

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (53,795)	\$ (70,111)	\$ (70,978)	\$ (70,111)	\$ (36,678)	\$ (301,673)

**Q. Please explain Adjustment C-11.**

A. This adjustment removes all identifiable incentive compensation expense included in the affiliate Management Fees for the 2008 test year. Expense for the five districts is reduced by \$256,853 as shown on Schedule C-11 and summarized on the schedule below.

Summary of Adjustments to Management Fees - Affiliate Incentive Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (50,261)	\$ (65,506)	\$ (66,317)	\$ (40,500)	\$ (34,269)	\$ (256,853)

**C-12 Affiliate Management Fees – Normalize Affiliate Pension Expense**

**Q. Please explain Adjustment C-12.**

A. This adjustment normalizes the amount of affiliate pension expense that was included in the Management Fee charges to AAWC for the 2008 test year. The affiliate employees participate in the same AWWC pension plan (subject to eligibility restrictions) as do AAWC employees. Similar to the adjustment for the pension expense for AAWC, discussed above in conjunction with Adjustment C-5, I have provided for a normalized expense based on a two-year average of 2007-2008. Expense for the five districts is reduced by \$4,257 as shown on Schedule C-12, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (833)	\$ (1,086)	\$ (1,099)	\$ (671)	\$ (568)	\$ (4,257)

**C-13 Affiliate Management Fees – Normalize Affiliate OPEB Expense**

**Q. Please explain Adjustment C-13.**

A. This adjustment normalizes the amount of OPEB expense that was included in the affiliate Management Fee charges to AAWC for the 2008 test year. The affiliate employees participate in the same AWWC OPEB plan (subject to eligibility restrictions) as do AAWC employees. Similar to the adjustment for the pension expense for AAWC, discussed above in conjunction with Adjustment C-6, I have provided for a normalized expense based on a two-year average of 2006-2008. Expense for the five districts is reduced by \$7,206 as shown on Schedule C-13 and summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (1,410)	\$ (1,838)	\$ (1,860)	\$ (1,136)	\$ (961)	\$ (7,206)

**C-14 Affiliate Management Fees – Remove Affiliate “Business Development” Costs**

**Q. Please explain Adjustment C-14.**

A. This adjustment removes all identifiable affiliate “Business Development” costs included in the affiliate Management Fees for the 2008 test year. Expense for the five districts is reduced by \$48,232 as shown on Schedule C-14 and as summarized in the table below.

Summary of Adjustments to Management Fees - Affiliate Business Development Costs

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (9,438)	\$ (12,301)	\$ (12,453)	\$ (7,605)	\$ (6,435)	\$ (48,232)

1  
2 **Q. Why should the affiliate "Business Development" costs that are included in the**  
3 **Management Fee charges to AAWC be removed?**

4 A. These charges should be removed because they are unnecessary for the provision of safe,  
5 reliable and reasonably priced water and wastewater utility service in Arizona. Similar  
6 costs were removed by the California PUC in the most recent California American Water  
7 rate case.  
8

9 ***C-15 Interest Synchronization (All Districts)***

10 **Q. Please explain Adjustment C-15.**

11 A. The interest synchronization adjustment applies the weighted cost of debt to the  
12 calculation of test year income tax expense. After adjustments, my proposed rate base  
13 differs from that of the Company. Additionally, the weighted cost of debt recommended  
14 by RUCO witness Rigsby differs from that requested by AAWC. This results in an  
15 adjustment to the amount of synchronized interest included in the tax calculation. The  
16 calculation of the interest synchronization adjustment is shown on Attachments RCS-2  
17 (for water) and RCS-3 (for wastewater), Schedule C-15. This adjustment decreases  
18 income tax expense and increases the Company's achieved operating income by a similar  
19 amount, as summarized in the below table.

Summary of Adjustments to Income Tax Expense for Interest Synchronization

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	\$ (10,318)	\$ 15,169	\$ (7,858)	\$ (1,854)	\$ (2,748)	\$ (7,609)

1

2 ***C-16 Depreciation Expense (Sun City Water)***

3 **Q. Please explain RUCO Adjustment C-16.**

4 A. As shown on Attachment B-2, Schedule C-16, AAWC's proposed depreciation expense  
5 for Sun City Water is reduced by \$36,961 based on applying the applicable depreciation  
6 rates to the plant adjustment. The related adjustment to plant was discussed above in  
7 conjunction with my rate base adjustment B-1.

8 ***C-17 Depreciation Expense (Agua Fria Wastewater)***

9 **Q. Please explain RUCO Adjustment C-17.**

10 A. This adjustment is shown on Attachment RCS-3, Schedule C-7 and reduces depreciation  
11 expense for Anthem/Agua Fria Wastewater by \$2,853 relating to the removal of two 75-  
12 horsepower pumps that were retired from plant in service. The retirement of those pumps  
13 was covered in my rate base shown on Attachment RCS-3, Schedule B-2, discussed  
14 above.

15

16 **Q. Does this conclude your testimony?**

17 A. Yes, it does.

**Attachment RCS-1**  
**QUALIFICATIONS OF RALPH C. SMITH**

**Accomplishments**

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed was the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

### Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

### Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

### Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)

80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933*	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC	
(Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company -- Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)
U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company -- Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)

R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA	
&76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA	
& 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001	
& ER-85647001	New England Power Company (FERC)
850782-EI &	
850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU	
& 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities Company, Kingman Telephone Division (Arizona CC)
T E-1032-88-102	Illinois Bell Telephone Company (Illinois CC)
89-0033	Puget Sound Power & Light Company (Washington UTC))
U-89-2688-T	Philadelphia Electric Company (Pennsylvania PUC)
R-891364	Potomac Electric Power Company (District of Columbia PSC)
F.C. 889	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
Case No. 88/546*	
87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf+Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)
R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)

R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
& U-1551-89-103	Hawaiian Electric Company (Hawaii PUC)
Docket No. 6998	Intrastate Access Charge Methodology, Pool and Rates
TC-91-040A and	Local Exchange Carriers Association and South Dakota
TC-91-040B	Independent Telephone Coalition
9911030-WS &	General Development Utilities - Port Malabar and
911-67-WS	West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314	
& M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 &	
U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 &	Citizens Utilities Company - Gas Division
U-1032-93-193	(Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/	Sale of Assets CC&N from Contel of the West, Inc. to
E-1032-93-169	Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR*	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed	Citizens Utility Company - Arizona Telephone Operations
Staff Investigation	(Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)

GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power & Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed	Delaware - Estimate Impact of Universal Services Issues (Delaware PSC)
Staff Investigation	
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60,	Investigation of 1998 Intrastate Access charge filings (Alaska PUC)
U-98-65, U-98-67	
(U-99-66, U-99-65,	Investigation of 1999 Intrastate Access Charge filing (Alaska PUC)
U-99-56, U-99-52)	
Phase II of	
97-SCCC-149-GIT	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Assistance	
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed	Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)
Project	
E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC)
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)

Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No.	
98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No.	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
99-01-016, Phase I	
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020	
Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)

U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No.	
E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
Case No.	
05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No.	
03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363,	
Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM,	
Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022,	
U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)

03-93-EL-ATA,	
06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No. UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0085	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)

**Arizona American Water Company**

**Docket No. 01303A-09-0343**

**Attachment RCS-2**

**Accompanying the Direct Testimony of Ralph Smith**

**RUCO Accounting Schedules - Water Districts**

<b>Number</b>	<b>Description</b>	<b>No. of Pages</b>	<b>Page No.</b>
	<b>Revenue Requirement Summary Schedules - Total Water</b>		
A	Calculation of Revenue Deficiency (Sufficiency)	1	2
A-1	Gross Revenue Conversion Factor	1	3
B	Adjusted Rate Base	1	4
B.1	Summary of Rate Base Adjustments	1	5
C	Adjusted Net Operating Income	1	6
C.1	Summary of Net Operating Income Adjustments	3	7-9
D	Capital Structure and Cost Rates	1	10
	<b>Revenue Requirement Summary Schedules - Anthem Water</b>		
A (A)	Calculation of Revenue Deficiency (Sufficiency)	1	11
A-1(A)	Gross Revenue Conversion Factor	1	12
B(A)	Adjusted Rate Base	1	13
B.1(A)	Summary of Rate Base Adjustments	1	14
C(A)	Adjusted Net Operating Income	1	15
C.1(A)	Summary of Net Operating Income Adjustments	3	16-18
	<b>Revenue Requirement Summary Schedules - Sun City Water</b>		
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	19
A-1(SC)	Gross Revenue Conversion Factor	1	20
B (SC)	Adjusted Rate Base	1	21
B.1 (SC)	Summary of Rate Base Adjustments	1	22
C (SC)	Adjusted Net Operating Income	1	23
C.1 (SC)	Summary of Net Operating Income Adjustments	3	24-26
	<b>Rate Base Adjustments</b>		
B-1	Post-Test Year Additions to Plant - Well 5.1 - Sun City Water	1	27
B-3	Contributions In Aid of Construction	1	28
B-4	Cash Working Capital	3	29-31
	<b>Net Operating Income Adjustments</b>		
C-1	Customer Annualization Correction - Anthem Water	1	32
C-2	Rate Case Expense	1	33
C-3	Achievement Incentive Pay	1	34
C-4	Stock-Based Compensation	1	35
C-5	Pension Expense	1	36
C-5.1	Calculations for pension expense adjustment	2	37-38
C-6	OPEB Expense	1	39
C-7	Dues, Donations & Miscellaneous Expenses	1	40
C-8	Tank Maintenance Expense - Sun City Water	1	41
C-9	Management Fees - Other Expenses	1	42
C-10	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits	1	43
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense	1	44
C-12	Management Fees - Normalize Affiliate Pension Expense	1	45
C-13	Management Fees - Normalize Affiliate OPEB Expense	1	46
C-14	Management Fees - Remove Business Development Expense	1	47
C-15	Interest Synchronization	1	48
C-16	Depreciation Expense - Well 5.1 - Sun City Water	1	49
	Total Pages (including Contents page)	49	

Arizona American Water Company - Total of Water Districts  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-2  
Schedule A  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	\$ 85,616,088	\$ 83,692,675	\$ (1,923,413)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 7,303,090	\$ 5,669,342	\$ (1,633,748)
4	Adjusted net operating income	C	\$ 1,375,533	\$ 2,021,549	\$ 646,016
5	Net operating income deficiency		\$ 5,927,557	\$ 3,647,793	\$ (2,279,764)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 9,816,374	\$ 6,040,964	\$ (3,775,410)

Percentage Increase Over Current Rates

8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 16,335,827	\$ 16,326,371	
9	Percentage Increase	L.7 / L.8	60.09%	37.00%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem/Agua Fria, Sun City and Sun City West)

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C	RUCO Proposed
RUCO recommended rate increase (line 7 above)	\$ 16,326,371
Total revenues after reflecting RUCO recommended increase	\$ 6,040,964
Percentage change in revenues	\$ 22,367,335
	37.00%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C	AAWC Proposed
AAWC proposed rate increase (line 7 above)	\$ 16,335,827
Total revenues after reflecting AAWC proposed increase	\$ 9,816,374
Percentage change in revenues	\$ 26,152,201
	60.09%

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6561</b>	<b>1.6561</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 3,216,811	60.38%
12 Federal Income Taxes	\$ 1,685,047	31.63%
13 State Income Taxes	\$ 371,201	6.97%
14 Property Taxes	\$ 37,633	0.71%
15 Uncollectibles	\$ 16,531	0.31%
16 Total Revenue Increase	\$ 5,327,223	100.00%
17 Total Revenue Increase (From Schedule A)	\$ 5,327,222	

Arizona American Water Company - Total of Water Districts  
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule B  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 149,301,020	\$ (1,123,185)	\$ 148,177,835
2	Phoenix Interconnection	\$ 5,000,000		\$ 5,000,000
3	Amortization of Phoenix Interconnection	\$ (116,667)		\$ (116,667)
4	Accumulated Depreciation	\$ (31,762,996)	\$ (463,964)	\$ (32,226,960)
5	<b>Net Utility Plant in Service</b>	<u>\$ 122,421,357</u>	<u>\$ (1,587,149)</u>	<u>\$ 120,834,208</u>
<b>Less:</b>				
6	Advances in Aid of Construction	\$ (24,418,393)	\$ -	\$ (24,418,393)
7	Contributions in Aid of Construction (net of amortization)	\$ (15,572,984)	\$ (69,262)	\$ (15,642,246)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (669,222)	\$ -	\$ (669,222)
10	Customer Meter Deposits	\$ (4,370)	\$ -	\$ (4,370)
11	Deferred Income Taxes and Credits	\$ 2,624,884	\$ -	\$ 2,624,884
12	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
13	<b>Total Reductions</b>	<u>\$ (38,040,085)</u>	<u>\$ (69,262)</u>	<u>\$ (38,109,347)</u>
<b>Plus:</b>				
14	Unamortized Finance Charges	\$ -	\$ -	\$ -
15	Deferred Tax Assets	\$ -	\$ -	\$ -
16	Deferred Debits	\$ 489,620	\$ -	\$ 489,620
17	Allowance for Working Capital	\$ 745,195	\$ (267,000)	\$ 478,195
18	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
19	<b>Total Additions</b>	<u>\$ 1,234,814</u>	<u>\$ (267,000)</u>	<u>\$ 967,814</u>
20	<b>Total Rate Base</b>	<u>\$ 85,616,088</u>	<u>\$ (1,923,411)</u>	<u>\$ 83,692,675</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Total of Water Districts  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule B.1  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	RUCO Adjustments	Contributions in		
			Post-Test Year Plant - Well 5.1	Aid of Construction	Cash Working Capital
			B-1	B-3	B-4
1	Gross Utility Plant in Service	\$ (1,123,185)	\$ (1,123,185)		
2	Accumulated Depreciation	\$ (463,964)	\$ (463,964)		
3	<b>Net Utility Plant in Service</b>	<b>\$ (1,587,149)</b>	<b>\$ (1,587,149)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Less:</b>					
4	Advances in Aid of Construction	\$ -			
5	Contributions in Aid of Construction (net of amortization)	\$ (69,262)		\$ (69,262)	
6	Imputed Regulatory Advances	\$ -			
7	Imputed Regulatory Contributions	\$ -			
8	Deferred Income Taxes and Credits	\$ -			
9	Investment Tax Credits and Deferred Credits	\$ -			
10	<b>Total Reductions</b>	<b>\$ (69,262)</b>	<b>\$ -</b>	<b>\$ (69,262)</b>	<b>\$ -</b>
<b>Plus:</b>					
11	Unamortized Finance Charges	\$ -			
12	Deferred Tax Assets	\$ -			
13	Deferred Debits	\$ -			
14	Allowance for Working Capital	\$ (267,000)			\$ (267,000)
15	Utility Plant Acquisition Adjustment	\$ -			
16	<b>Total Additions</b>	<b>\$ (267,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (267,000)</b>
17	<b>Total Rate Base</b>	<b>\$ (1,923,411)</b>	<b>\$ (1,587,149)</b>	<b>\$ (69,262)</b>	<b>\$ (267,000)</b>

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Total of Water Districts  
Adjusted Net Operating Income

Attachment RCS-2  
Schedule C  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Water Revenues	\$ 16,335,827	\$ (9,456)	\$ 16,326,371
2	Other Revenues	\$ 430,548	\$ -	\$ 430,548
3	<b>Total Revenues</b>	<u>\$ 16,766,375</u>	<u>\$ (9,456)</u>	<u>\$ 16,756,919</u>
<b>Operating Expenses</b>				
4	Labor	\$ 1,979,757	\$ (88,897)	\$ 1,890,860
5	Purchased Water	\$ 625,435	\$ -	\$ 625,435
6	Fuel & Power	\$ 2,982,219	\$ -	\$ 2,982,219
7	Chemicals	\$ 140,388	\$ -	\$ 140,388
8	Waste Disposal	\$ 1,933	\$ -	\$ 1,933
9	Management Fees	\$ 2,667,400	\$ (303,325)	\$ 2,364,075
10	Group Insurance	\$ 563,722	\$ (4,683)	\$ 559,039
11	Pensions	\$ 357,243	\$ (131,839)	\$ 225,404
12	Regulatory Expense	\$ 139,775	\$ (51,307)	\$ 88,468
13	Insurance Other Than Group	\$ 164,808	\$ -	\$ 164,808
14	Customer Accounting	\$ 418,449	\$ -	\$ 418,449
15	Rents	\$ 93,842	\$ -	\$ 93,842
16	General Office Expense	\$ 138,590	\$ -	\$ 138,590
17	Miscellaneous	\$ 529,384	\$ (7,487)	\$ 521,897
18	Maintenance Expense	\$ 793,404	\$ (445,000)	\$ 348,404
19	Depreciation & Amortization	\$ 3,965,599	\$ (36,961)	\$ 3,928,638
20	General Taxes - Property Taxes	\$ 449,027	\$ -	\$ 449,027
21	General Taxes - Other	\$ 129,794	\$ -	\$ 129,794
22	Income Taxes	\$ (749,929)	\$ 414,028	\$ (335,901)
23	<b>Total Operating Expenses</b>	<u>\$ 15,390,840</u>	<u>\$ (655,471)</u>	<u>\$ 14,735,369</u>
24	<b>Utility Operating Income</b>	<u>\$ 1,375,535</u>	<u>\$ 646,015</u>	<u>\$ 2,021,550</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (2,568,483)	\$ -	\$ (2,568,483)
27	Other Expense	\$ (32,427)	\$ -	\$ (32,427)
28	Gain/Loss Sale of Fixed Assets	\$ (7)	\$ -	\$ (7)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (2,600,917)</u>	<u>\$ -</u>	<u>\$ (2,600,917)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (1,225,382)</u>	<u>\$ 646,015</u>	<u>\$ (579,367)</u>
31	Rate Base	<u>\$ 85,616,088</u>	<u>\$ (138,271)</u>	<u>\$ 85,477,817</u>
32	Earned Rate of Return	<u>1.61%</u>		<u>2.36%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Attachment RCS-2  
Schedule C.1  
Docket No. W-01303A-09-0343  
Page 1 of 3

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Tank Maintenance Expense C-1	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5
<b>Revenues</b>							
1	Water Revenues	\$ (9,456)	\$ (9,456)				
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	<u>\$ (9,456)</u>	<u>\$ (9,456)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Operating Expenses</b>							
4	Labor	\$ (88,897)			\$ (33,107)	\$ (55,790)	
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (303,325)					
10	Group Insurance	\$ (4,683)					
11	Pensions	\$ (131,839)					\$ (131,839)
12	Regulatory Expense	\$ (51,307)		\$ (51,307)			
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (7,487)					
18	Maintenance Expense	\$ (445,000)					
19	Depreciation & Amortization	\$ (36,961)					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	<b>PRE-TAX OPERATING EXPENSES</b>	<u>\$ (1,069,499)</u>	<u>\$ -</u>	<u>\$ (51,307)</u>	<u>\$ (33,107)</u>	<u>\$ (55,790)</u>	<u>\$ (131,839)</u>
16	<b>PRE-TAX OPERATING INCOME</b>	<u>\$ 1,060,043</u>	<u>\$ (9,456)</u>	<u>\$ 51,307</u>	<u>\$ 33,107</u>	<u>\$ 55,790</u>	<u>\$ 131,839</u>
17	Income Taxes	\$ 414,028	\$ (3,650)	\$ 19,805	\$ 12,779	\$ 21,535	\$ 50,890
18	<b>TOTAL OPERATING EXPENSES</b>	<u>\$ (655,471)</u>	<u>\$ (3,650)</u>	<u>\$ (31,502)</u>	<u>\$ (20,328)</u>	<u>\$ (34,255)</u>	<u>\$ (80,949)</u>
19	<b>OPERATING INCOME</b>	<u>\$ 646,015</u>	<u>\$ (5,806)</u>	<u>\$ 31,502</u>	<u>\$ 20,328</u>	<u>\$ 34,255</u>	<u>\$ 80,949</u>

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

38.60%

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Attachment RCS-2  
Schedule C.1  
Docket No. W-01303A-09-0343  
Page 2 of 3

Test Year Ended March 31, 2008

Line No.	Description	OPEB Expense C-6	Dues, Donations & Misc. Expenses C-7	Tank Maintenance Expense C-8	Management Fees - Other Expenses C-9	Management Fees - Employee Benefits C-10	Management Fees - Incentive Compensation C-11
<b>Revenues</b>							
1	Water Revenues						
2	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees						
10	Group Insurance	\$ (4,683)			\$ (36,747)	\$ (123,905)	\$ (115,767)
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous		\$ (7,487)	\$ (445,000)	\$ (36,747)	\$ (123,905)	\$ (115,767)
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	\$ (4,683)	\$ (7,487)	\$ (445,000)	\$ (36,747)	\$ (123,905)	\$ (115,767)
16	PRE-TAX OPERATING INCOME	\$ 4,683	\$ 7,487	\$ 445,000	\$ 36,747	\$ 123,905	\$ 115,767
17	Income Taxes	\$ 1,808	\$ 2,890	\$ 171,770	\$ 14,184	\$ 47,827	\$ 44,686
18	TOTAL OPERATING EXPENSES	\$ (2,875)	\$ (4,597)	\$ (273,230)	\$ (22,563)	\$ (76,078)	\$ (71,081)
19	OPERATING INCOME	\$ 2,875	\$ 4,597	\$ 273,230	\$ 22,563	\$ 76,078	\$ 71,081

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Line No.	Description	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	Depreciation Expense Related to Post-Test Year Plant - Well 5.1
		C-12	C-13	C-14	C-15
					C-16

4	Operating Expenses			
5	Labor			
6	Purchased Water			
7	Fuel & Power			
8	Chemicals			
9	Waste Disposal			
	Management Fees			
		\$	(1,919)	\$
				(3,248)
				(21,739)

	\$	(1,919)	\$	(3,248)	\$	(21,739)	\$	-	\$	(36,961)
	\$	1,919	\$	3,248	\$	21,739	\$	-	\$	36,961
	\$	741	\$	1,254	\$	8,391	\$	4,851	\$	14,267
	\$	(1,178)	\$	(1,994)	\$	(13,348)	\$	4,851	\$	(22,694)
	\$	1,178	\$	1,994	\$	13,348	\$	(4,851)	\$	22,694

Combined Effective Tax Rate per AAWC filing Sch. C-3

Arizona American Water Company - Water Districts  
Capital Structure and Cost Rates

Attachment RCS-2  
Schedule D  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Percent (B)	Cost Rate (C)	Weighted Cost (D)
<b>Per Company</b>					
1	Long-Term Debt	\$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	\$ 154,949,595	45.15%	12.25%	5.53%
4	Total	\$ 343,157,735	100.00%		8.53%

<b>Per RUCO</b>					
5	Long-Term Debt	\$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	\$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	\$ 154,949,595	39.15%	9.50%	3.72%
8	Total	\$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

Notes and Source

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)

Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (A)	\$ 57,430,025	\$ 57,291,754	\$ (138,271)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 4,898,781	\$ 3,880,943	\$ (1,017,838)
4	Adjusted net operating income	C (A)	\$ 514,448	\$ 667,437	\$ 152,989
5	Net operating income deficiency		\$ 4,384,333	\$ 3,213,506	\$ (1,170,827)
6	Gross revenue conversion factor	A-1 (A)	1.6578	1.6578	
7	Revenue deficiency (Sufficiency)		\$ 7,268,177	\$ 5,327,222	\$ (1,940,955)
<u>Percentage Increase Over Current Rates</u>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 7,210,624	\$ 7,201,168	
9	Percentage Increase	L.7 / L.8	100.80%	73.98%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C (A)	RUCO Proposed
\$ 7,201,168	\$ 7,201,168
RUCO recommended rate increase (line 7 above)	\$ 5,327,222
Total revenues after reflecting RUCO recommended increase	\$ 12,528,390
Percentage change in revenues	73.98%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C (A)	AAWC Proposed
\$ 7,210,624	\$ 7,210,624
AAWC proposed rate increase (line 7 above)	\$ 7,268,177
Total revenues after reflecting AAWC proposed increase	\$ 14,478,801
Percentage change in revenues	100.80%

Arizona American Water Company - Anthem Water  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule A-1 (A)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.80%	0.80%
3	Bad Debt Expense	0.28%	0.28%
4	Taxable Income as a Percent	98.92%	98.92%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.29%	67.29%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.32%	60.32%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6578</b>	<b>1.6578</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 3,213,504	60.32%
12 Federal Income Taxes	\$ 1,685,047	31.63%
13 State Income Taxes	\$ 371,201	6.97%
14 Property Taxes	\$ 42,670	0.80%
15 Uncollectibles	\$ 14,800	0.28%
16 Total Revenue Increase	\$ 5,327,222	100.00%
17 Total Revenue Increase (From Schedule A)	\$ 5,327,222	

Arizona American Water Company - Anthem Water  
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule B (A)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 85,684,602	\$ -	\$ 85,684,602
2	Phoenix Interconnection	\$ 5,000,000	\$ -	\$ 5,000,000
3	Amortization of Phoenix Interconnection	\$ (116,667)	\$ -	\$ (116,667)
4	Accumulated Depreciation	\$ (12,789,099)	\$ -	\$ (12,789,099)
5	<b>Net Utility Plant in Service</b>	<u>\$ 77,778,836</u>	<u>\$ -</u>	<u>\$ 77,778,836</u>
<b>Less:</b>				
6	Advances in Aid of Construction	\$ (18,557,742)	\$ -	\$ (18,557,742)
7	Contributions in Aid of Construction (net of amortization)	\$ (2,393,271)	\$ (30,271)	\$ (2,423,542)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (326,764)	\$ -	\$ (326,764)
10	Customer Meter Deposits	\$ (1,920)	\$ -	\$ (1,920)
11	Deferred Income Taxes and Credits	\$ 720,067	\$ -	\$ 720,067
12	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
13	<b>Total Reductions</b>	<u>\$ (20,559,630)</u>	<u>\$ (30,271)</u>	<u>\$ (20,589,901)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 51,714	\$ -	\$ 51,714
16	Allowance for Working Capital	\$ 159,104 *	\$ (108,000)	\$ 51,104
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 210,818</u>	<u>\$ (108,000)</u>	<u>\$ 102,818</u>
19	<b>Total Rate Base</b>	<u>\$ 57,430,025</u>	<u>\$ (138,271)</u>	<u>\$ 57,291,754</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

\* Per Revised Schedule B-5 (Company did not revise Schedule B-1 for Anthem Water)

Arizona American Water Company - Anthem Water  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule B.1 (A)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction		Cash Working Capital
			B-3	B-4	
1	Gross Utility Plant in Service	\$ -			
2	Phoenix Interconnection	\$ -			
3	Amortization of Phoenix Interconnection	\$ -			
4	Accumulated Depreciation	\$ -			
5	<b>Net Utility Plant in Service</b>	\$ -	\$ -	\$ -	
<b>Less:</b>					
6	Advances in Aid of Construction	\$ -			
7	Contributions in Aid of Construction (net of amortization)	\$ (30,271)	\$ (30,271)		
8	Imputed Regulatory Advances	\$ -			
9	Imputed Regulatory Contributions	\$ -			
10	Customer Meter Deposits	\$ -			
11	Deferred Income Taxes and Credits	\$ -			
12	Investment Tax Credits and Deferred Credits	\$ -			
13	<b>Total Reductions</b>	\$ (30,271)	\$ (30,271)	\$ -	
<b>Plus:</b>					
13	Unamortized Finance Charges	\$ -			
14	Deferred Tax Assets	\$ -			
15	Deferred Debits	\$ -			
16	Allowance for Working Capital	\$ (108,000)		\$ (108,000)	
17	Utility Plant Acquisition Adjustment	\$ -			
18	<b>Total Additions</b>	\$ (108,000)	\$ -	\$ (108,000)	
19	<b>Total Rate Base</b>	\$ (138,271)	\$ (30,271)	\$ (108,000)	
		\$ (138,271)			

Notes and Source

See referenced exhibit for each adjustment

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Water Revenues	\$ 7,210,624	\$ (9,456)	\$ 7,201,168
2	Other Revenues	\$ 272,650	\$ -	\$ 272,650
3	<b>Total Revenues</b>	<u>\$ 7,483,274</u>	<u>\$ (9,456)</u>	<u>\$ 7,473,818</u>
<b>Operating Expenses</b>				
4	Labor	\$ 754,087	\$ (38,639)	\$ 715,448
5	Purchased Water	\$ 625,435	\$ -	\$ 625,435
6	Fuel & Power	\$ 1,259,637	\$ -	\$ 1,259,637
7	Chemicals	\$ 103,351	\$ -	\$ 103,351
8	Waste Disposal	\$ 1,933	\$ -	\$ 1,933
9	Management Fees	\$ 1,158,078	\$ (131,691)	\$ 1,026,387
10	Group Insurance	\$ 209,326	\$ (2,033)	\$ 207,293
11	Pensions	\$ 105,808	\$ (39,203)	\$ 66,605
12	Regulatory Expense	\$ 64,489	\$ (27,003)	\$ 37,486
13	Insurance Other Than Group	\$ 71,553	\$ -	\$ 71,553
14	Customer Accounting	\$ 183,101	\$ -	\$ 183,101
15	Rents	\$ 33,826	\$ -	\$ 33,826
16	General Office Expense	\$ 60,044	\$ -	\$ 60,044
17	Miscellaneous	\$ 229,300	\$ (3,250)	\$ 226,050
18	Maintenance Expense	\$ 140,803	\$ -	\$ 140,803
19	Depreciation & Amortization	\$ 2,399,893	\$ -	\$ 2,399,893
20	General Taxes - Property Taxes	\$ 292,953	\$ -	\$ 292,953
21	General Taxes - Other	\$ 34,882	\$ -	\$ 34,882
22	Income Taxes	\$ (759,675)	\$ 79,375	\$ (680,300)
23	<b>Total Operating Expenses</b>	<u>\$ 6,968,825</u>	<u>\$ (162,445)</u>	<u>\$ 6,806,380</u>
24	<b>Utility Operating Income</b>	<u>\$ 514,448</u>	<u>\$ 152,989</u>	<u>\$ 667,437</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (1,722,901)		\$ (1,722,901)
27	Other Expense	\$ (14,079)		\$ (14,079)
28	Gain/Loss Sale of Fixed Assets	\$ (3)		\$ (3)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (1,736,983)</u>	<u>\$ -</u>	<u>\$ (1,736,983)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (1,222,535)</u>	<u>\$ 152,989</u>	<u>\$ (1,069,546)</u>
31	Rate Base	<u>\$ 57,430,025</u>	<u>\$ (138,271)</u>	<u>\$ 57,291,754</u>
32	Earned Rate of Return	<u>0.90%</u>		<u>1.16%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Customer Annualization Correction C-1	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>								
1	Water Revenues	\$ (9,456)	\$ (9,456)					
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	<b>\$ (9,456)</b>	<b>\$ (9,456)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Operating Expenses</b>								
4	Labor	\$ (38,639)			\$ (14,417)	\$ (24,222)		
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (131,691)						
10	Group Insurance	\$ (2,033)					\$ (39,203)	\$ (2,033)
11	Pensions	\$ (39,203)						
12	Regulatory Expense	\$ (27,003)		\$ (27,003)				
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (3,250)						
18	Maintenance Expense	\$ -						
19	Depreciation & Amortization	\$ -						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	PRE-TAX OPERATING EXPENSES	\$ (241,820)	\$ -	\$ (27,003)	\$ (14,417)	\$ (24,222)	\$ (39,203)	\$ (2,033)
16	PRE-TAX OPERATING INCOME	\$ 232,364	\$ (9,456)	\$ 27,003	\$ 14,417	\$ 24,222	\$ 39,203	\$ 2,033
17	Income Taxes	\$ 79,375	\$ (3,650)	\$ 10,423	\$ 5,565	\$ 9,350	\$ 15,132	\$ 785
18	TOTAL OPERATING EXPENSES	\$ (162,445)	\$ (3,650)	\$ (16,580)	\$ (8,852)	\$ (14,872)	\$ (24,071)	\$ (1,248)
19	OPERATING INCOME	\$ 152,989	\$ (5,806)	\$ 16,580	\$ 8,852	\$ 14,872	\$ 24,071	\$ 1,248

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Misc. Expenses C-7	Management Fees - Other Expenses C-9	Management Fees - Employee Benefits C-10	Management Fees - Incentive Compensation C-11	Management Fees - Normalize Pension Expense C-12	Management Fees - Normalize Affiliate OPEB Expense C-13
<b>Revenues</b>							
1	Water Revenues						
2	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees		\$ (15,954)	\$ (53,795)	\$ (50,261)	\$ (833)	\$ (1,410)
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	\$ (3,250)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	\$ (3,250)	\$ (15,954)	\$ (53,795)	\$ (50,261)	\$ (833)	\$ (1,410)
16	PRE-TAX OPERATING INCOME	\$ 3,250	\$ 15,954	\$ 53,795	\$ 50,261	\$ 833	\$ 1,410
17	Income Taxes	\$ 1,255	\$ 6,158	\$ 20,765	\$ 19,401	\$ 322	\$ 544
18	TOTAL OPERATING EXPENSES	\$ (1,995)	\$ (9,796)	\$ (33,030)	\$ (30,860)	\$ (511)	\$ (866)
19	OPERATING INCOME	\$ 1,995	\$ 9,796	\$ 33,030	\$ 30,860	\$ 511	\$ 866

Notes and Source  
Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15
<b>Revenues</b>			
1	Water Revenues		
2	Other Revenues		
3	<b>Total Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>			
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees	\$ (9,438)	
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		
20	General Taxes - Property Taxes		
21	General Taxes - Other		
15	PRE-TAX OPERATING EXPENSES	\$ (9,438)	\$ -
16	PRE-TAX OPERATING INCOME	\$ 9,438	\$ -
17	Income Taxes	\$ 3,643	\$ (10,318)
18	TOTAL OPERATING EXPENSES	\$ (5,795)	\$ (10,318)
19	OPERATING INCOME	\$ 5,795	\$ 10,318

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Sun City Water  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-2  
Schedule A (SC)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	\$ 28,186,063	\$ 26,400,924	\$ (1,785,139)
2	Rate of return	D (SC)	8.53%	6.77%	
3	Net operating income required		\$ 2,404,271	\$ 1,788,399	\$ (615,872)
4	Adjusted net operating income	C (SC)	\$ 861,085	\$ 1,354,113	\$ 493,028
5	Net operating income deficiency		\$ 1,543,186	\$ 434,286	\$ (1,108,900)
6	Gross revenue conversion factor	A-1 (SC)	1.6402	1.6402	
7	Revenue deficiency (Sufficiency)		\$ 2,531,127	\$ 712,316	\$ (1,818,811)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 9,125,203	\$ 9,125,203	
9	Percentage Increase	L.7 / L.8	27.74%	7.81%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

<b>Calculation of RUCO recommended percentage increase to AAWC's base rates</b>			RUCO Proposed
AAWC's adjusted water revenues per Schedule C (SC)			\$ 9,125,203
RUCO recommended rate increase (line 7 above)			\$ 712,316
Total revenues after reflecting RUCO recommended increase			\$ 9,837,519
Percentage change in revenues			7.81%
<b>Calculation of AAWC's proposed percentage increase to base rates</b>			AAWC Proposed
AAWC's adjusted water revenues per Schedule C (SC)			\$ 9,125,203
AAWC proposed rate increase (line 7 above)			\$ 2,531,127
Total revenues after reflecting AAWC proposed increase			\$ 11,656,330
Percentage change in revenues			27.74%

Arizona American Water Company - Sun City Water  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule A-1 (SC)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.34%	0.34%
3	Bad Debt Expense	0.09%	0.09%
4	Taxable Income as a Percent	99.57%	99.57%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.94%	67.94%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.97%	60.97%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6402</b>	<b>1.6402</b>

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11	Net Income	\$ 434,287 60.97%
12	Federal Income Taxes	\$ 225,312 31.63%
13	State Income Taxes	\$ 49,634 6.97%
14	Property Taxes	\$ 2,431 0.34%
15	Uncollectibles	\$ 652 0.09%
16	Total Revenue Increase	\$ 712,316 100.00%
17	Total Revenue Increase (From Schedule A)	\$ 712,316

Arizona American Water Company - Sun City Water  
Adjusted Rate Base

Attachment RCS-2  
Schedule B (SC)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 63,616,418	\$ (1,123,185)	\$ 62,493,233
2	Accumulated Depreciation	\$ (18,973,897)	\$ (463,964)	\$ (19,437,861)
3	<b>Net Utility Plant in Service</b>	<b>\$ 44,642,520</b>	<b>\$ (1,587,149)</b>	<b>\$ 43,055,372</b>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (5,860,651)	\$ -	\$ (5,860,651)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,179,713)	\$ (38,991)	\$ (13,218,704)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (342,458)	\$ -	\$ (342,458)
8	Customer Meter Deposits	\$ (2,450)	\$ -	\$ (2,450)
9	Deferred Income Taxes and Credits	\$ 1,904,817	\$ -	\$ 1,904,817
10	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
11	<b>Total Reductions</b>	<b>\$ (17,480,455)</b>	<b>\$ (38,991)</b>	<b>\$ (17,519,446)</b>
<b>Plus:</b>				
12	Unamortized Finance Charges	\$ -	\$ -	\$ -
13	Deferred Tax Assets	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 437,906	\$ -	\$ 437,906
15	Allowance for Working Capital	\$ 586,091	\$ (159,000)	\$ 427,091
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	<b>Total Additions</b>	<b>\$ 1,023,997</b>	<b>\$ (159,000)</b>	<b>\$ 864,997</b>
18	<b>Total Rate Base</b>	<b>\$ 28,186,063</b>	<b>\$ (1,785,140)</b>	<b>\$ 26,400,924</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City Water  
Summary of Adjustments to Rate Base

Attachment RCS-2  
Schedule B.1 (SC)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Contributions in		
			Post-Test Year Plant - Well 5.1 B-1	Aid of Construction B-3	Cash Working Capital B-4
1	Gross Utility Plant in Service	\$ (1,123,185)	\$ (1,123,185)		
2	Accumulated Depreciation	\$ (463,964)	\$ (463,964)		
3	<b>Net Utility Plant in Service</b>	<b>\$ (1,587,149)</b>	<b>\$ (1,587,149)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Less:</b>					
4	Advances in Aid of Construction	-			
5	Contributions in Aid of Construction (net of amortization)	\$ (38,991)		\$ (38,991)	
6	Imputed Regulatory Advances	-			
7	Imputed Regulatory Contributions	-			
8	Customer Meter Deposits	-			
9	Deferred Income Taxes and Credits	-			
10	Investment Tax Credits and Deferred Credits	-			
11	<b>Total Reductions</b>	<b>\$ (38,991)</b>	<b>\$ -</b>	<b>\$ (38,991)</b>	<b>\$ -</b>
<b>Plus:</b>					
12	Unamortized Finance Charges	-			
13	Deferred Tax Assets	-			
14	Deferred Debits	-			
15	Allowance for Working Capital	\$ (159,000)			\$ (159,000)
16	Utility Plant Acquisition Adjustment	-			
17	<b>Total Additions</b>	<b>\$ (159,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (159,000)</b>
18	<b>Total Rate Base</b>	<b>\$ (1,785,140)</b>	<b>\$ (1,587,149)</b>	<b>\$ (38,991)</b>	<b>\$ (159,000)</b>

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Water  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule C (SC)  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C )
<b>Revenues</b>				
1	Water Revenues	\$ 9,125,203	\$ -	\$ 9,125,203
2	Other Revenues	\$ 157,898	\$ -	\$ 157,898
3	<b>Total Revenues</b>	<u>\$ 9,283,101</u>	<u>\$ -</u>	<u>\$ 9,283,101</u>
<b>Operating Expenses</b>				
4	Labor	\$ 1,225,670	\$ (50,258)	\$ 1,175,412
5	Purchased Water	\$ -	\$ -	\$ -
6	Fuel & Power	\$ 1,722,582	\$ -	\$ 1,722,582
7	Chemicals	\$ 37,037	\$ -	\$ 37,037
8	Waste Disposal	\$ -	\$ -	\$ -
9	Management Fees	\$ 1,509,322	\$ (171,633)	\$ 1,337,689
10	Group Insurance	\$ 354,396	\$ (2,650)	\$ 351,746
11	Pensions	\$ 251,435	\$ (92,636)	\$ 158,799
12	Regulatory Expense	\$ 75,286	\$ (24,304)	\$ 50,982
13	Insurance Other Than Group	\$ 93,255	\$ -	\$ 93,255
14	Customer Accounting	\$ 235,348	\$ -	\$ 235,348
15	Rents	\$ 60,016	\$ -	\$ 60,016
16	General Office Expense	\$ 78,546	\$ -	\$ 78,546
17	Miscellaneous	\$ 300,084	\$ (4,237)	\$ 295,847
18	Maintenance Expense	\$ 652,601	\$ (445,000)	\$ 207,601
19	Depreciation & Amortization	\$ 1,565,706	\$ (36,961)	\$ 1,528,745
20	General Taxes - Property Taxes	\$ 156,074	\$ -	\$ 156,074
21	General Taxes - Other	\$ 94,912	\$ -	\$ 94,912
22	Income Taxes	\$ 9,746	\$ 334,652	\$ 344,398
23	<b>Total Operating Expenses</b>	<u>\$ 8,422,016</u>	<u>\$ (493,028)</u>	<u>\$ 7,928,988</u>
24	<b>Utility Operating Income</b>	<u>\$ 861,085</u>	<u>\$ 493,028</u>	<u>\$ 1,354,113</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (845,582)		\$ (845,582)
27	Other Expense	\$ (18,348)		\$ (18,348)
28	Gain/Loss Sale of Fixed Assets	\$ (4)		\$ (4)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (863,934)</u>	<u>\$ -</u>	<u>\$ (863,934)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (2,849)</u>	<u>\$ 493,028</u>	<u>\$ 490,179</u>
31	Rate Base	<u>\$ 28,186,063</u>	<u>\$ (1,785,140)</u>	<u>\$ 26,400,923</u>
32	Earned Rate of Return	<u>3.06%</u>		<u>5.13%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1

Col.B: Schedule C.1

Col.C: Col.A + Col.B

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6	Dues, Donations & Misc. Expenses C-7
<b>Revenues</b>								
1	Water Revenues	\$ -						
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor	\$ (50,258)		\$ (18,690)	\$ (31,568)			
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (171,633)						
10	Group Insurance	\$ (2,650)				\$ (92,636)	\$ (2,650)	
11	Pensions	\$ (92,636)						
12	Regulatory Expense	\$ (24,304)	\$ (24,304)					
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (4,237)						\$ (4,237)
18	Maintenance Expense	\$ (445,000)						
19	Depreciation & Amortization	\$ (36,961)						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	PRE-TAX OPERATING EXPENSES	\$ (827,680)	\$ (24,304)	\$ (18,690)	\$ (31,568)	\$ (92,636)	\$ (2,650)	\$ (4,237)
16	PRE-TAX OPERATING INCOME	\$ 827,680	\$ 24,304	\$ 18,690	\$ 31,568	\$ 92,636	\$ 2,650	\$ 4,237
17	Income Taxes	\$ 334,652	\$ 9,381	\$ 7,214	\$ 12,185	\$ 35,758	\$ 1,023	\$ 1,635
18	TOTAL OPERATING EXPENSES	\$ (493,028)	\$ (14,923)	\$ (11,476)	\$ (19,383)	\$ (56,878)	\$ (1,627)	\$ (2,602)
19	OPERATING INCOME	\$ 493,028	\$ 14,923	\$ 11,476	\$ 19,383	\$ 56,878	\$ 1,627	\$ 2,602

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Test Year Ended March 31, 2008

Line No.	Description	Tank Maintenance Expense	Management Fees - Other Expenses	Management Fees - Employee Benefits	Management Fees - Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses
		C-8	C-9	C-10	C-11	C-12	C-13	C-14
<b>Revenues</b>								
1	Water Revenues							
2	Other Revenues							
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees		\$ (20,793)	\$ (70,111)	\$ (65,506)	\$ (1,086)	\$ (1,838)	\$ (12,301)
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous							
18	Maintenance Expense							
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	\$ (445,000)	\$ (20,793)	\$ (70,111)	\$ (65,506)	\$ (1,086)	\$ (1,838)	\$ (12,301)
16	PRE-TAX OPERATING INCOME	\$ 445,000	\$ 20,793	\$ 70,111	\$ 65,506	\$ 1,086	\$ 1,838	\$ 12,301
17	Income Taxes	\$ 171,770	\$ 8,026	\$ 27,063	\$ 25,285	\$ 419	\$ 709	\$ 4,748
18	TOTAL OPERATING EXPENSES	\$ (273,230)	\$ (12,767)	\$ (43,048)	\$ (40,221)	\$ (667)	\$ (1,129)	\$ (7,553)
19	OPERATING INCOME	\$ 273,230	\$ 12,767	\$ 43,048	\$ 40,221	\$ 667	\$ 1,129	\$ 7,553

\$ (445,000)

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company - Sun City Water  
Summary of Net Operating Income Adjustments

Attachment RCS-2  
Schedule C.1 (SC)  
Docket No. W-01303A-09-0343  
Page 3 of 3

Test Year Ended March 31, 2008

Line No.	Description	Interest Synchronization C-15	Depreciation Expense Related to Post-Test Year Plant - Well 5.1 - Sun City Water C-16
<b>Revenues</b>			
1	Water Revenues		
2	Other Revenues		
3	<b>Total Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>			
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees		
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		\$ (36,961)
20	General Taxes - Property Taxes		
21	General Taxes - Other		
15	PRE-TAX OPERATING EXPENSES	\$ -	\$ (36,961)
16	PRE-TAX OPERATING INCOME	\$ -	\$ 36,961
17	Income Taxes	\$ 15,169	\$ 14,267
18	TOTAL OPERATING EXPENSES	\$ 15,169	\$ (22,694)
19	OPERATING INCOME	\$ (15,169)	\$ 22,694

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company  
Post-Test Year Additions to Plant - Well 5.1 - Sun City Water

Attachment RCS-2  
Schedule B-1  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Sun City Water	Reference
		(A)	
1	Remove Well 5.1 From Utility Plant in Service	\$ (1,587,149)	A
2	Reverse Retirement of Old Well	\$ 463,964	A&B
3	Gross Utility Plant in Service	<u>\$ (1,123,185)</u>	
3	Increase Accumulated Depreciation for Old Well	\$ (463,964)	B
4	Net Adjustment to Utility Plant in Service	<u>\$ (1,587,149)</u>	

Notes and Source

A: Amounts per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

B: Page 5 of the direct testimony of Company witness Linda J. Gutowski stated:

"The retirement of \$463,964 for the old Well #5.1 was deducted from plant and from accumulated depreciation"

Arizona American Water Company  
Contributions In Aid of Construction

Attachment RCS-2  
Schedule B-3  
Docket No. W/SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/ Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater* (E)	Total (F)	Reference
1	Reverse Company Adjustments to CIAC	\$ (30,271)	\$ (38,991)	\$ (65,490)	\$ (3,743)	\$ -	\$ (138,495)	A
2	Subtotal Water						\$ (69,262)	
3	Subtotal Wastewater						\$ (69,233)	
4	Total Adjustment						\$ (138,495)	

Notes and Source

A: Per Schedule B-2, Adjustment No. SLM-8 from AAWC filing

\* The Company's adjustment to CIAC related to Sun City West Wastewater netted to zero

Arizona American Water Company  
Cash Working Capital

Attachment RCS-2

Schedule B-4

Docket No. W-01303A-09-0343

Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (D)	Reference
1	Cash Working Capital Requirement Per Filing	\$ 75,089	\$ 416,111	\$ 491,200	A
2	RUCO Recommended Cash Working Capital Requirement	\$ (32,502)	\$ 257,541	\$ 225,039	B
3	Adjustment to Cash Working Capital	\$ (107,591)	\$ (158,570)	\$ (266,161)	
4	Adjustment to Cash Working Capital Rounded to Nearest \$000	\$ (108,000)	\$ (159,000)	\$ (267,000)	

Notes and Source

A: AAWC filing, Schedule B-6

B: See Schedules B-2 (A) and B-2 (SC)

Test Year Ended December 31, 2008

Line No.		Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Cash Working Capital Required (H)	Reference
<b>OPERATING EXPENSES</b>										
1	P08 Labor	\$ 754,087	\$ (38,639)	\$ 715,448	40.02	12.00	28.02	0.0768	\$ 54,931	
2	P09 Purchased Water	\$ 625,435	\$	\$ 625,435	40.02	50.92	-10.89	(0.0298)	\$ (18,664)	
3	P10 Fuel & Power	\$ 1,259,637	\$	\$ 1,259,637	40.02	22.70	17.33	0.0475	\$ 59,801	
4	P11 Chemicals	\$ 103,351	\$	\$ 103,351	40.02	8.73	31.30	0.0857	\$ 8,862	
5	P12 Waste disposal	\$ 1,933	\$	\$ 1,933	40.02	4.55	35.47	0.0972	\$ 188	
6	P13 Management Fees	\$ 1,158,078	\$ (131,691)	\$ 1,026,387	40.02	12.00	28.02	0.0768	\$ 78,804	a
7	P14 Group Insurance	\$ 209,326	\$ (2,033)	\$ 207,293	40.02	-13.70	53.73	0.1472	\$ 30,513	
8	P15 Pensions	\$ 105,808	\$ (39,203)	\$ 66,605	40.02	-2.37	42.39	0.1161	\$ 7,736	
9	P17 Insurance Other Than Group	\$ 71,553	\$	\$ 71,553	40.02	-83.68	123.71	0.3389	\$ 24,251	
10	P18 Customer Accounting	\$ 183,101	\$	\$ 183,101	40.02	10.09	29.93	0.0820	\$ 15,017	
11	P19 Rents	\$ 33,826	\$	\$ 33,826	40.02	0.00	40.02	0.1097	\$ 3,709	
12	P21 Miscellaneous	\$ 229,300	\$	\$ 229,300	40.02	8.89	31.13	0.0853	\$ 19,556	
13	P25 Maintenance Expense	\$ 140,803	\$	\$ 140,803	40.02	33.61	6.41	0.0176	\$ 2,474	
14	Other Operating Expenses	\$ 124,533	\$ (30,253)	\$ 94,280	40.02	30.00	10.02	0.0275	\$ 2,589	
15	P29 Property Taxes	\$ 288,011	\$	\$ 288,011	40.02	191.29	-151.27	(0.4144)	\$ (119,363)	
16	P29 Taxes Other than Income	\$ 34,882	\$	\$ 34,882	40.02	13.35	26.68	0.0731	\$ 2,550	
17	P30 Income Tax	\$ 1,996,536	\$ 2,135,623	\$ 4,132,159	40.02	30.13	9.89	0.0271	\$ 112,010	
18	P56 Interest	\$ 1,722,960	\$ 26,731	\$ 1,749,690	40.02	106.25	-66.23	(0.1814)	\$ (317,466)	
19	Total	\$ 9,043,161	\$ 1,920,534	\$ 10,963,695						
20	Working Cash Requirement								\$ (32,502)	
21	Working Cash Requirement per Company								\$ 75,089	
22	Adjustment to Cash Working Capital								\$ (107,591)	

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 40.02. Company used 46.11 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	\$ 1,996,536
24	RUCO adjustments to current income taxes	\$ 79,375
25	Income Taxes for Revenue Increase	\$ 2,056,248
26	Total current income taxes for CWC calculation	\$ 4,132,159

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Working Capital Required (H)	Reference
OPERATING EXPENSES									
1 P08 Labor	\$ 1,225,670	\$ (50,258)	\$ 1,175,412	39.65	12.00	27.65	0.0757	\$ 89,025	
2 P09 Purchased Water	\$ -	\$ -	\$ -	39.65	(59.03)	98.67	0.2703	\$ -	
3 P10 Fuel & Power	\$ 1,722,582	\$ -	\$ 1,722,582	39.65	22.09	17.56	0.0481	\$ 82,858	
4 P11 Chemicals	\$ 37,037	\$ -	\$ 37,037	39.65	15.09	24.56	0.0673	\$ 2,492	
5 P12 Waste disposal	\$ -	\$ -	\$ -	39.65	-	39.65	0.1086	\$ -	
6 P13 Management Fees	\$ 1,509,322	\$ (171,633)	\$ 1,337,689	39.65	12.00	27.65	0.0757	\$ 101,316	a
7 P14 Group Insurance	\$ 354,396	\$ (2,650)	\$ 351,746	39.65	(13.70)	53.35	0.1462	\$ 51,412	
8 P15 Pensions	\$ 251,435	\$ (92,636)	\$ 158,799	39.65	(2.37)	42.01	0.1151	\$ 18,279	
9 P17 Insurance Other Than Group	\$ 93,255	\$ -	\$ 93,255	39.65	(83.68)	123.33	0.3379	\$ 31,510	
10 P18 Customer Accounting	\$ 235,348	\$ -	\$ 235,348	39.65	10.09	29.56	0.0810	\$ 19,057	
11 P19 Rents	\$ 60,016	\$ -	\$ 60,016	39.65	32.82	6.82	0.0187	\$ 1,122	
12 P21 Miscellaneous	\$ 300,084	\$ -	\$ 300,084	39.65	25.96	13.69	0.0375	\$ 11,253	
13 P25 Maintenance Expense	\$ 652,601	\$ (445,000)	\$ 207,601	39.65	23.25	16.40	0.0449	\$ 9,325	
14 Other Operating Expenses	\$ 153,833	\$ (28,541)	\$ 125,292	39.65	30.00	9.65	0.0264	\$ 3,311	
15 P29 Property Taxes	\$ 156,074	\$ -	\$ 156,074	39.65	190.63	(150.99)	(0.4137)	\$ (64,561)	
16 P29 Taxes Other than Income	\$ 94,912	\$ -	\$ 94,912	39.65	13.35	26.30	0.0721	\$ 6,839	
17 P30 Income Tax	\$ 979,846	\$ 609,598	\$ 1,589,444	39.65	30.13	9.52	0.0261	\$ 41,434	
18 P56 Interest	\$ 845,582	\$ (39,298)	\$ 806,284	39.65	106.25	(66.61)	(0.1825)	\$ (147,130)	
19 Total	\$ 8,671,993	\$ (220,418)	\$ 8,451,575						

20 Working Cash Requirement  
21 Working Cash Requirement per Company  
22 Adjustment to Cash Working Capital

\$ 257,541  
\$ 416,111  
\$ (158,570)

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.73 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23 Per AAWC	\$ 979,846	
24 RUCO adjustments to current income taxes	\$ 334,652	Schedule C.1 (SC), line 17
25 Income Taxes for Revenue Increase	\$ 274,946	Schedule A-1 (SC), lines 12 & 13
26 Total current income taxes for CWC calculation	\$ 1,589,444	

Test Year Ended December 31, 2008

<u>Line No.</u>	<u>Description</u>	<u>Anthem Water</u>	<u>Reference</u>
		(A)	
1	Adjustment to Reduce Annualized Revenue to Reflect Error Correction	\$ <u>(9,456)</u>	A

Notes and Source  
A: Testimony of RUCO witness Rodney Moore

Arizona American Water Company  
Rate Case Expense

Attachment RCS-2  
Schedule C-2  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	\$ 57,546	\$ 63,081	\$ 120,627	A
2	RUCO Recommended Normalized Rate Case Expense	\$ 30,543	\$ 38,777	\$ 69,320	B
3	Adjustment to Rate Case Expense	\$ (27,003)	\$ (24,304)	\$ (51,307)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

4	Estimated Rate Case Expense per Company	Anthem Water	Sun City Water
5	Normalized over three years	\$ 678,425 <sup>3</sup>	\$ 678,425 <sup>3</sup>
6	Estimated Normalized Rate Case Expense	\$ 226,142	\$ 226,142
7	2009 Group 4-Factor per Company	19.919%	25.289%
8	Allocated Rate Case Expense	\$ 45,046	\$ 57,190
9	Unamortized Balance of Prior Rate Case Expense	\$ 37,500	\$ 17,674
10	Normalized over three years	\$ 12,500 <sup>3</sup>	\$ 5,891 <sup>3</sup>
11	Annual Amortization of Unamortized Rate Case Expense		
12	Pro Forma Rate Case Expense	\$ 57,546	\$ 63,081

B: RUCO recommended Rate Case Expense calculated as follows:

13	RUCO recommended Rate Case Expense	\$ 460,000	\$ 460,000
14	Normalized over three years	\$ 153,333 <sup>3</sup>	\$ 153,333 <sup>3</sup>
15	Normalized Rate Case Expense	19.919%	25.289%
16	2009 Group 4-Factor	\$ 30,543	\$ 38,777
17	Allocated Rate Case Expense		

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Achievement Incentive Pay Recorded at 12/31/2008				
2	Corporate Allocation	\$ 3,496	\$ 4,224	\$ 7,720	A
3	Total Achievement Incentive Pay	\$ 44,560	\$ 58,075	\$ 102,635	A&B
4	Disallowance Percentage	\$ 48,056	\$ 62,299	\$ 110,355	C
5	Adjustment to Achievement Incentive Pay	30%	30%		
		\$ (14,417)	\$ (18,690)	\$ (33,107)	

Notes and Source

- A: Amounts above per Company workpaper "AI-2008" for each district  
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2  
C: Testimony of RUCO witness Ralph Smith

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjustment to Remove Stock-Based Compensation	\$ (24,222)	\$ (31,568)	\$ (55,790)	A

Notes and Source

A: Amounts below from AAWC's response to RUCO 6-3

Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
2 Comp - Stock Options - Account 501716	\$ 36,693	\$ 41,909	\$ 78,602
3 Comp - Restricted Stock - Account 501717	\$ 28,834	\$ 103,974	\$ 132,808
4 Comp - Restricted Stock Units - Account 701718	\$ 4,046	\$ 43,232	\$ 47,278
5 Total Test Year Stock-Based Compensation	\$ 69,573	\$ 189,115	\$ 258,688

	Anthem Water	Sun City Water
6 Total Test Year Stock-Based Compensation	\$ 258,688	\$ 258,688
7 4 Factor Allocator	9.3634%	12.2033%
8 Total Allocated Test Year Stock-Based Compensation	\$ 24,222	\$ 31,568

Arizona American Water Company  
Pension Expense

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule C-5  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Pro Forma Pension Expense Per Filing	\$ 120,860	\$ 267,828	\$ 388,689	A
2	RUCO Recommended Pro Forma Pension Expense	\$ 81,657	\$ 175,192	\$ 256,849	B&C
3	Adjustment to Pension Expense	\$ (39,203)	\$ (92,636)	\$ (131,839)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing  
B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

- 5 Recorded Pension Expense - 2007
- 6 Recorded Pension Expense - 2008
- 7 Normalized Over Two Years
- 8 Normalized Pension Expense
- 9 C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company workpaper "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

Amount
\$ 903,222
\$ 1,734,561
Subtotal \$ 2,637,783
\$ 1,318,892

A	B	C	D	E	F	G	H	I	J	K	L
115	ARIZONA-AMERICAN WATER COMPANY						Exhibit				
116	SUMMARY OF PENSION PRO FORMA ADJUSTMENTS						Schedule C-2				
117	TEST YEAR ENDED DECEMBER 31, 2008						Page				
118							Witness: Hubbard				
119											
120	Line	Business Unit	District	RUCO	Adjusted Test Year Pension Expense	Test Year Pension Expense	Difference	Per AAWC Adjusted Test Year Pension Expense	Per RUCO Pension Expense	RUCO Adjustment	
121	No.										
122	1	2381, 2383		\$	81,657.13	\$	162,414.00	\$	120,860.39	\$	81,657.13
123	2	Anthem Water									
124	3										
125	4										
126	5										
127	6										
128	7	Sun City Water		\$	175,192.00	\$	211,674.00	\$	267,828.16	\$	175,192.00
129	8										
130	9										
131	10										
132	11										
133	12	Anthem Wastewater		\$	70,701.52	\$	100,380.00	\$	106,761.98	\$	70,701.52
134	13										
135	14										
136	15										
137	16										
138	17	Agua Fria Wastewater		\$	56,670.94	\$	113,914.00	\$	81,710.83	\$	56,670.94
139	18	Northwest Valley Regional Treatment Facility @ 32%		\$	21,784.85			\$	21,784.85	\$	21,784.85
140	19	Total Agua Fria Wastewater		\$	78,455.79	\$	113,914.00	\$	114,878.32	\$	78,455.79
141	20										
142	21										
143	22										
144	23										
145	24	Sun City Wastewater		\$	49,093.81	\$	130,870.00	\$	74,280.77	\$	49,093.81
146	25										
147	26										
148	27										
149	28										
150	29	Sun City West Wastewater		\$	51,667.97	\$	110,737.00	\$	78,489.93	\$	51,667.97
151	30	Northwest Valley Regional Treatment Facility @ 68%		\$	46,292.81			\$	46,292.81	\$	46,292.81
152	31	Total Sun City West Wastewater		\$	97,960.78	\$	110,737.00	\$	148,970.85	\$	97,960.78
153	32										
154	33	Total All Districts		\$	553,061.04	\$	829,989.00	\$	833,580.46	\$	553,061.04
155	34										
156	35										
157	36										
158	37										
159	38										
160	39										
161	40										
162	41										
163	42										
164	43										
165	44										
166	45	Workpapers & Supporting Documents:									
167	46	09 Sun City West WW\Workpapers\Sun City West WW Al 2008.xls									
168	47	Common Labor									
169	48										

Case5\AZ RUCO AZ American Water 2009\Testimony\AZ 2008 Labor\_Pension Adjustment.xlsm\Sheet1

Cases\AZ RUCO AZ American Water 2009\Testimony\AZ 2008 Labor\_Pension Adjustment.xlsx Sheet1

Arizona American Water Company  
Test Year Ending December 31, 2008  
Pension Expense

Line No.	Average Recorded Pension, 2007-2008	\$ 1,318,892
1		
2		
3	Number of Active Participants	107
4		
5	Average Cost per Participant	\$ 12,326
6		
7	Average Cost Per Participant Per Hour (Ln. 5 + 2,080 hrs.)	\$ 5.93
8		
9	Compare per AWWC:	
10	Actual Pension Funding Expense for 2009 under ERISA	\$ 2,090,643 =-'2008 Pension'D89
11	Total reduction L1 - L10	\$ (771,751)
12		
13		
14		
15		
16		
17		
18		
19	Defined Contribution Plan for new Hires beginning 1/1/06	
20	Beginning 1/1/06, the Company no longer offers a Pension Plan to new hires.	
21	Instead, new hires get the Defined Contribution Plan as a benefit.	
22	The Company will contribute 5.25% of Base Pay into a Defined Contribution Plan.	
23		
24		
25	New Hires after 1/1/2006	Base Pay 5.25%
26		\$ 3,954,058.36 \$207,588
27		
28	Number of Active Participants	79
29	Average Cost per Participant	\$2,627.70
30		
31	Average Cost Per Participant Per Hour (Ln.27 + 2,080 hrs.)	\$ 1.26
32		
33		
34		
35		

Arizona American Water Company  
OPEB Expense

Attachment RCS-2  
Schedule C-6  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	\$ 78,238	\$ 78,238		A
2	4 Factor Allocation Factor	9.363%	12.203%		
3	Adjusted Test Year OPEB Expense Per Company	\$ 7,326	\$ 9,548	\$ 16,874	
4	RUCO Recommended Pro Forma OPEB Expense	\$ 5,293	\$ 6,898	\$ 12,191	
5	Adjustment to OPEB Expense	\$ (2,033)	\$ (2,650)	\$ (4,683)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
7 Recorded OPEB Cost - 2007	\$ 62,603
8 Recorded OPEB Cost - 2008	\$ 75,723
9	
Subtotal	\$ 138,326
10 Normalized Over Two Years	2
11 Normalized OPEB Cost	\$ 69,163
12 Capitalization Percentage	18.3%
13 Capitalized Portion of OPEB Cost	\$ (12,634)
14 Expensed Portion of OPEB Cost	\$ 56,529
	L11 + L13
15 4 Factor Allocation Factor	9.363%
16 Anthem Water Portion of OPEB Expense	\$ 5,293
	L14 x L15
17 4 Factor Allocation Factor	12.203%
18 Sun City Water Portion of OPEB Expense	\$ 6,898
	L14 x L17

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634%	Sun City Water 12.2033%	Anthem/ Agua Fria Wastewater 12.3543%	Sun City Wastewater 7.5448%	Sun City West Wastewater 6.3842%	Total 47.8500%	Reference
		(A)	(B)	(C)	(D)	(E)	(F)	
1	Membership Dues	\$ (1,774)	\$ (2,313)	\$ (2,341)	\$ (1,430)	\$ (1,210)	\$ (9,068)	A
2	Charitable Contributions	\$ (796)	\$ (1,038)	\$ (1,051)	\$ (642)	\$ (543)	\$ (4,070)	A
3	Community Relations	\$ (504)	\$ (657)	\$ (665)	\$ (406)	\$ (343)	\$ (2,575)	A
4	Advertising Expense	\$ (176)	\$ (229)	\$ (232)	\$ (142)	\$ (120)	\$ (899)	A
5	Total	\$ (3,250)	\$ (4,237)	\$ (4,289)	\$ (2,620)	\$ (2,216)	\$ (16,612)	
6	Subtotal Water						\$ (7,487)	
7	Subtotal Wastewater						\$ (9,125)	
8	Total Adjustment						\$ (16,612)	

Notes and Source

A: Amounts per AAWC's response to RUCO 2-43

	Amount
9 Membership Dues	\$ 18,951
10 Charitable Contributions	\$ 8,505
11 Community Relations	\$ 5,380
12 Advertising Expense	\$ 1,880
13 Total	\$ 34,716

see below

Breakout of Advertising Expenses being removed:

14 Public Works Financing - Corporate	\$ 594
15 Hanley Wood LLC - Marketing	\$ 318
16 Hanley Wood LLC - Marketing	\$ 636
17 Naylor LLC - Marketing	\$ 295
18 Identity Links, Inc. - Promotional	\$ 8
19 Langa Resource Group-REMIT - Promotional	\$ 19
20 M&N Services LLC - Promotional	\$ 10
21 Total	\$ 1,880

Arizona American Water Company  
Tank Maintenance Expense - Sun City Water

Test Year Ended December 31, 2008

Attachment RCS-2  
Schedule C-8  
Docket No. W-01303A-09-0343  
Page 1 of 1

Line No.	Description	Sun City Water	Reference
		(A)	
1	Adjusted Test Year Tank Maintenance Expense Per Filing	\$ 475,201	A
2	Adjustment to Remove Proposed Accrual for Deferred Tank Maintenance	\$ (445,000)	
3	RUCO Recommended Tank Maintenance Expense	<u>\$ 30,201</u>	

Notes and Source

A: Per Sun City Water, Schedule C-2, page 29, Adjustment No. SLH-11 from Arizona-American filing

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater (E)	Total (F)	Reference
1	Reverse AAWC Adjustment to Annualize Management Fees - Other Expenses	\$ (15,954)	\$ (20,793)	\$ (21,050)	\$ (12,855)	\$ (10,878)	\$ (81,530)	A
2	Subtotal Water						\$ (36,747)	
3	Subtotal Wastewater						\$ (44,783)	
4	Total Adjustment						\$ (81,530)	

Notes and Source

A: Per Schedule C-2, Adjustment No. MHK-4 from AAWC filing

Test Year Ended December 31, 2008

Line No.	Description	(A)		(B)		(C)		(D)		(E)		(F)		Reference
		Anthem Water	9.3634%	Sun City Water	12.2033%	Anthem/ Agua Fria Wastewater	12.3543%	Sun City Wastewater	7.5448%	Sun City West Wastewater	6.3842%	Total	47.8500%	
Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits														
1	Per AAWC	\$ 71,343		\$ 92,981		\$ 94,132		\$ 57,487		\$ 48,643		\$ 364,587		A
2	Per RUCO	\$ 17,548		\$ 22,871		\$ 23,154		\$ 14,140		\$ 11,965		\$ 89,678		B
3	Adjustment	<u>\$ (53,795)</u>		<u>\$ (70,111)</u>		<u>\$ (70,978)</u>		<u>\$ (43,347)</u>		<u>\$ (36,678)</u>		<u>\$ (274,909)</u>		
4	Subtotal Water											\$ (123,905)		
5	Subtotal Wastewater											\$ (151,004)		
6	Total Adjustment											<u>\$ (274,909)</u>		

Notes and Source

- A Per Schedule C-2, Adjustment No. MHK-3 from AAWC filing  
B Allows 4 percent March 2009 pay increase and removes AAWC's requested 22% post test year increase in employee benefits

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634%	Sun City Water 12.2033%	Anthem/ Agua Fria Wastewater 12.3543%	Sun City Wastewater 7.5448%	Sun City West Wastewater 6.3842%	Total 47.8500%	Reference
		(A)	(B)	(C)	(D)	(E)	(F)	
<b>Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits</b>								
1	Per AWWC	\$ 50,261	\$ 65,506	\$ 66,317	\$ 40,500	\$ 34,269	\$ 256,853	A
2	Per RUCO						\$ -	B
3	Adjustment	<u>\$ (50,261)</u>	<u>\$ (65,506)</u>	<u>\$ (66,317)</u>	<u>\$ (40,500)</u>	<u>\$ (34,269)</u>	<u>\$ (256,853)</u>	
4	Subtotal Water						\$ (115,767)	
5	Subtotal Wastewater						\$ (141,086)	
6	Total Adjustment						<u>\$ (256,853)</u>	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
501711	Incentive Plan-Off-Annual	\$ 497,594	\$ 8,155	\$ 505,749
501712	Incentive Plan-Off-Long Term	\$ 30,538	\$ 500	\$ 31,038
	Totals	<u>\$ 528,132</u>	<u>\$ 8,655</u>	<u>\$ 536,787</u>

B Reflects removal of all affiliate incentive compensation expense to AWWC in the test year

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Per AWWC	\$ 46,779	\$ 60,967	\$ 61,722	\$ 37,694	\$ 31,895	\$ 239,057	A
2	Per RUCO	\$ 45,946	\$ 59,881	\$ 60,623	\$ 37,022	\$ 31,327	\$ 234,800	B
3	Adjustment	\$ (833)	\$ (1,086)	\$ (1,099)	\$ (671)	\$ (568)	\$ (4,257)	
4	Subtotal Water						\$ (1,919)	
5	Subtotal Wastewater						\$ (2,338)	
6	Total Adjustment						\$ (4,257)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
506100	Pension	\$ 491,541	\$ 8,056	\$ 499,596

Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):

506100	Pension	2008	\$ 491,541
--------	---------	------	------------

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated pension expense

Year	Amount	Reference
2007	\$ 489,857	RUCO 4-5
2008	\$ 491,541	RUCO 4-5
Average	\$ 490,699	

Compare amounts from Company's response to RUCO 2-59a, Account 506100, Service Company Pension Charges:

Year	Capitalized O&M	Total
2005	\$ 23,326	\$ 78,757
2006	\$ 100,747	\$ 1,624,692
2007	\$ 69,871	\$ 489,857
2008	\$ 46,979	\$ 495,909
Average 2006-2008		\$ 870,153

Compare amounts from Company's response to RUCO 2-61, Account 506100, Pension:

Year	Amount
2005	\$ 96,878
2006	\$ 1,624,689
2007	\$ 489,857
2008	\$ 495,909
Average 2006-2008	\$ 870,152

C December 2006 had an unusually large charge of

2006 YTD November	\$ 320,510
2006 YTD November - annualized	\$ 349,647

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
<b>Normalize Affiliate OPEB Expense in Management Fees:</b>								
1	Per AWWC	\$ 13,044	\$ 17,000	\$ 17,211	\$ 10,511	\$ 8,894	\$ 66,659	A
2	Per RUCO	\$ 11,634	\$ 15,163	\$ 15,350	\$ 9,374	\$ 7,932	\$ 59,454	B
3	Adjustment	\$ (1,410)	\$ (1,838)	\$ (1,860)	\$ (1,136)	\$ (961)	\$ (7,206)	
4	Subtotal Water						\$ (3,248)	
5	Subtotal Wastewater						\$ (3,958)	
6	Total Adjustment						\$ (7,206)	

**Notes and Source**

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
505100	PBOP	\$ 137,062	\$ 2,246	\$ 137,062
Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):				
505100	PBOP	\$ 137,062		

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated OPEB expense

Year	Amount	Reference
2007	\$ 111,438	RUCO 4-5
2008	\$ 137,062	RUCO 4-5
Average	\$ 124,250	

Compare amounts from Company's response to RUCO 2-59a, Account 505100, Service Company OPEB Charges:

Year	Capitalized	O&M	Total
2005	\$ 29,024	\$ 116,116	\$ 145,140
2006	\$ 37,871	\$ 136,162	\$ 174,033
2007	\$ 15,890	\$ 111,438	\$ 127,328
2008	\$ 13,100	\$ 138,280	\$ 151,380
Average 2006-2008		\$ 128,627	\$ 151,380

Compare amounts from Company's response to RUCO 2-61, Account 505100, PBOP:

Year	Amount
2005	\$ 97,995
2006	\$ 136,162
2007	\$ 111,438
2008	\$ 138,280
Average 2006-2008	\$ 128,627

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Remove Affiliate Charges for Business Development							
2	Per AWWC	\$ 9,438	\$ 12,301	\$ 12,453	\$ 7,605	\$ 6,435	\$ 48,232	A
3	Per RUCO							B
4	Adjustment	\$ (9,438)	\$ (12,301)	\$ (12,453)	\$ (7,605)	\$ (6,435)	\$ (48,232)	
5	Subtotal Water						\$ (21,739)	
6	Subtotal Wastewater						\$ (26,493)	
	Total Adjustment						\$ (48,232)	

Notes and Source

A Derived from Company's response to RUCO 4-3  
Total Business Development Expenses \$ 100,799

Compare: AAWC's response to RUCO 2-43(g):  
"Business development costs in the test year were \$101,395."

B Reflects removal of affiliate charges for business development

Arizona American Water Company  
Interest Synchronization

Attachment RCS-2  
Schedule C-15  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008  
(Thousands of Dollars)

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjusted Rate Base, per RUCO	\$ 57,291,754	\$ 26,400,924	\$ 83,692,678	Schedules B (A) and B (SC)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%		Per RUCO - Schedule D
3	Deduction for Tax Purposes	\$ 1,749,690	\$ 806,284	\$ 2,555,974	L1 x L2
4	Interest Deduction per Company	\$ 1,722,960	\$ 845,582	\$ 2,568,542	Note A
5	Difference (Decreased) Increased Interest Deduction	\$ 26,730	\$ (39,298)	\$ (12,568)	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	\$ (10,318)	\$ 15,169	\$ 4,851	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Test Year Ended December 31, 2008

Line No.	Description	Sun City		Reference
		Water	(A)	
1	Remove Depreciation Expense Related to Post-Test Year Plant - Well 5.1	\$ (48,653)		A
2	Reverse Company Adjustment to Depreciation Expense Related to Old Well 5.1	\$ 11,692		A
3	Net Adjustment to Depreciation Expense	<u>\$ (36,961)</u>		

Notes and Source

A: Per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

**Arizona American Water Company**

**Docket No. 01303A-09-0343**

**Attachment RCS-3**

**Accompanying the Direct Testimony of Ralph Smith**

**RUCO Accounting Schedules - Wastewater Districts**

Number	Description	No. of Pages	Page No.	Note
	<b>Revenue Requirement Summary Schedules - Total Wastewater</b>			
A	Calculation of Revenue Deficiency (Sufficiency)	1	2	
A-1	Gross Revenue Conversion Factor	1	3	
B	Adjusted Rate Base	1	4	
B.1	Summary of Rate Base Adjustments	1	5	
C	Adjusted Net Operating Income	1	6	
C.1	Summary of Net Operating Income Adjustments	3	7-9	
D	Capital Structure and Cost Rates	1	10	
	<b>Revenue Requirement Summary Schedules - Anthem/Agua Fria Wastewater</b>			
A (AAF)	Calculation of Revenue Deficiency (Sufficiency)	1	11	
A-1(AAF)	Gross Revenue Conversion Factor	1	12	
B(AAF)	Adjusted Rate Base	1	13	
B.1(AAF)	Summary of Rate Base Adjustments	1	14	
C(AAF)	Adjusted Net Operating Income	1	15	
C.1(AAF)	Summary of Net Operating Income Adjustments	3	16-18	
	<b>Revenue Requirement Summary Schedules - Sun City Wastewater</b>			
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	19	
A-1(SC)	Gross Revenue Conversion Factor	1	20	
B (SC)	Adjusted Rate Base	1	21	
B.1 (SC)	Summary of Rate Base Adjustments	1	22	
C (SC)	Adjusted Net Operating Income	1	23	
C.1 (SC)	Summary of Net Operating Income Adjustments	2	24-25	
	<b>Revenue Requirement Summary Schedules - Sun City West Wastewater</b>			
A(SCW)	Calculation of Revenue Deficiency (Sufficiency)	1	26	
A-1(SCW)	Gross Revenue Conversion Factor	1	27	
B(SCW)	Adjusted Rate Base	1	28	
B.1(SCW)	Summary of Rate Base Adjustments	1	29	
C(SCW)	Adjusted Net Operating Income	1	30	
C.1(SCW)	Summary of Net Operating Income Adjustments	3	31-33	
	<b>Rate Base Adjustments</b>			
B-2	Plant Retirements - Anthem/Agua Fria Wastewater	1	34	
B-3	Contributions In Aid of Construction			A
B-4	Cash Working Capital	4	35-38	
	<b>Net Operating Income Adjustments</b>			
C-2	Rate Case Expense	1	39	
C-3	Achievement Incentive Pay	1	40	
C-4	Stock-Based Compensation	1	41	
C-5	Pension Expense	1	42	
C-5.1	Calculations for pension expense adjustment			A
C-6	OPEB Expense	1	43	
C-7	Dues, Donations & Miscellaneous Expenses			A
C-9	Management Fees - Other Expenses			A
C-10	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits			A
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense			A
C-12	Management Fees - Normalize Affiliate Pension Expense			A
C-13	Management Fees - Normalize Affiliate OPEB Expense			A
C-14	Management Fees - Remove Business Development Expense			A
C-15	Interest Synchronization	1	44	
C-17	Depreciation Expense - Anthem/Agua Fria Wastewater Only	1	45	
	Total Pages (including Contents page)	45		

A: See Attachment RCS-2

Arizona American Water Company - Total of Wastewater Districts  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-3  
Schedule A  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	\$ 80,321,091	\$ 79,957,856	\$ (363,235)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 6,851,421	\$ 5,416,345	\$ (1,435,076)
4	Adjusted net operating income	C	\$ 375,065	\$ 828,315	\$ 453,250
5	Net operating income deficiency		\$ 6,476,356	\$ 4,588,030	\$ (1,888,326)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 10,725,216	\$ 7,598,053	\$ (3,127,163)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 20,228,926	\$ 20,228,926	
9	Percentage Increase	L.7 / L.8	53.02%	37.56%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem/Agua Fria, Sun City and Sun City West)

<b>Calculation of RUCO recommended percentage increase to AAWC's base rates</b>		RUCO Proposed
AAWC's adjusted water revenues per Schedule C		\$ 20,228,926
RUCO recommended rate increase (line 7 above)		\$ 7,598,053
Total revenues after reflecting RUCO recommended increase		\$ 27,826,979
Percentage change in revenues		37.56%
<b>Calculation of AAWC's proposed percentage increase to base rates</b>		AAWC Proposed
AAWC's adjusted water revenues per Schedule C		\$ 20,228,926
AAWC proposed rate increase (line 7 above)		\$ 10,725,216
Total revenues after reflecting AAWC proposed increase		\$ 30,954,142
Percentage change in revenues		53.02%

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule A-1  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6561</b>	<b>1.6561</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3

Combined state and federal income tax rate	38.60%	38.60%
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Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 4,588,038	60.38%
12 Federal Income Taxes	\$ 2,403,331	31.63%
13 State Income Taxes	\$ 529,432	6.97%
14 Property Taxes	\$ 53,674	0.71%
15 Uncollectibles	\$ 23,577	0.31%
16 Total Revenue Increase	\$ 7,598,052	100.00%
17 Total Revenue Increase (From Schedule A)	\$ 7,598,053	

Arizona American Water Company - Total of Wastewater Districts  
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule B  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 191,762,219	\$ (52,636)	\$ 191,709,583
2	Accumulated Depreciation	\$ (52,782,874)	\$ 52,636	\$ (52,730,238)
3	<b>Net Utility Plant in Service</b>	<u>\$ 138,979,344</u>	<u>\$ -</u>	<u>\$ 138,979,344</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (51,079,109)	\$ -	\$ (51,079,109)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,846,225)	\$ (69,233)	\$ (13,915,458)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (947,395)	\$ -	\$ (947,395)
10	Deferred Income Taxes and Credits	\$ 4,117,012	\$ -	\$ 4,117,012
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<u>\$ (61,755,717)</u>	<u>\$ (69,233)</u>	<u>\$ (61,824,950)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 2,241,558	\$ -	\$ 2,241,558
16	Allowance for Working Capital	\$ 855,905	\$ (294,000)	\$ 561,905
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 3,097,462</u>	<u>\$ (294,000)</u>	<u>\$ 2,803,462</u>
19	<b>Total Rate Base</b>	<u>\$ 80,321,091</u>	<u>\$ (363,233)</u>	<u>\$ 79,957,856</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Total of Wastewater Districts  
Summary of Adjustments to Rate Base

Attachment RCS-3  
Schedule B.1  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Plant		
			Retirements - Anthem/Agua Fria Wastewater	Contributions in Aid of Construction	Cash Working Capital
			B-2	B-3	B-4
1	Gross Utility Plant in Service	\$ (52,636)	\$ (52,636)		
2	Accumulated Depreciation	\$ 52,636	\$ 52,636		
3	<b>Net Utility Plant in Service</b>	\$ -	\$ -	\$ -	\$ -
<b>Less:</b>					
4	Advances in Aid of Construction	\$ -			
5	Contributions in Aid of Construction (net of amortization)	\$ (69,233)		\$ (69,233)	
6	Imputed Regulatory Advances	\$ -			
7	Imputed Regulatory Contributions	\$ -			
10	Deferred Income Taxes and Credits	\$ -			
11	Investment Tax Credits and Other Deferred Credits	\$ -			
12	<b>Total Reductions</b>	\$ (69,233)	\$ -	\$ (69,233)	\$ -
<b>Plus:</b>					
13	Unamortized Finance Charges	\$ -			
14	Deferred Tax Assets	\$ -			
15	Deferred Debits	\$ -			
16	Allowance for Working Capital	\$ (294,000)			\$ (294,000)
17	Utility Plant Acquisition Adjustment	\$ -			
18	<b>Total Additions</b>	\$ (294,000)	\$ -	\$ -	\$ (294,000)
18	<b>Total Rate Base</b>	\$ (363,233)	\$ -	\$ (69,233)	\$ (294,000)

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Total of Wastewater Districts  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule C  
Docket No. SW-01303A-09-0403  
Page 1 of 1

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 20,228,926	\$ -	\$ 20,228,926
2	Other Revenues	\$ 10,288	\$ -	\$ 10,288
3	<b>Total Revenues</b>	<u>\$ 20,239,214</u>	<u>\$ -</u>	<u>\$ 20,239,214</u>
<b>Operating Expenses</b>				
4	Labor	\$ 2,556,566	\$ (110,844)	\$ 2,445,722
5	Purchased Water	\$ 10,524	\$ -	\$ 10,524
6	Fuel & Power	\$ 679,980	\$ -	\$ 679,980
7	Chemicals	\$ 709,941	\$ -	\$ 709,941
8	Waste Disposal	\$ 3,602,842	\$ -	\$ 3,602,842
9	Management Fees	\$ 3,250,764	\$ (369,662)	\$ 2,881,102
10	Group Insurance	\$ 804,856	\$ (5,706)	\$ 799,150
11	Pensions	\$ 447,520	\$ (148,500)	\$ 299,020
12	Regulatory Expense	\$ 174,416	\$ (71,206)	\$ 103,210
13	Insurance Other Than Group	\$ 201,008	\$ -	\$ 201,008
14	Customer Accounting	\$ 511,824	\$ -	\$ 511,824
15	Rents	\$ 163,430	\$ -	\$ 163,430
16	General Office Expense	\$ 180,591	\$ -	\$ 180,591
17	Miscellaneous	\$ 882,166	\$ -	\$ 882,166
18	Maintenance Expense	\$ 446,357	\$ -	\$ 446,357
19	Depreciation & Amortization	\$ 5,749,606	\$ (11,978)	\$ 5,737,628
20	General Taxes - Property Taxes	\$ 589,432	\$ -	\$ 589,432
21	General Taxes - Other	\$ 181,327	\$ -	\$ 181,327
22	Income Taxes	\$ (1,279,000)	\$ 264,648	\$ (1,014,352)
23	<b>Total Operating Expenses</b>	<u>\$ 19,864,150</u>	<u>\$ (453,248)</u>	<u>\$ 19,410,902</u>
24	<b>Utility Operating Income</b>	<u>\$ 375,064</u>	<u>\$ 453,248</u>	<u>\$ 828,312</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (2,409,633)	\$ -	\$ (2,409,633)
27	Other Expense	\$ (39,518)	\$ -	\$ (39,518)
28	Gain/Loss Sale of Fixed Assets	\$ 1	\$ -	\$ 1
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (2,449,150)</u>	<u>\$ -</u>	<u>\$ (2,449,150)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (2,074,086)</u>	<u>\$ 453,248</u>	<u>\$ (1,620,838)</u>
31	Rate Base	<u>\$ 80,321,091</u>	<u>\$ (363,233)</u>	<u>\$ 79,957,858</u>
32	Earned Rate of Return	<u>0.47%</u>		<u>1.04%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Wastewater Districts  
Summary of Net Operating Income Adjustments

Attachment RCS-3  
Schedule C.1  
Docket No. SW-01303A-09-0343  
Page 1 of 3

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5
<b>Revenues</b>						
1	Sewer Revenues	\$ -				
2	Other Revenues	\$ -				
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>						
4	Labor	\$ (110,844)		\$ (42,852)	\$ (67,992)	
5	Purchased Water	\$ -				
6	Fuel & Power	\$ -				
7	Chemicals	\$ -				
8	Waste Disposal	\$ -				
9	Management Fees	\$ (369,662)				
10	Group Insurance	\$ (5,706)				
11	Pensions	\$ (148,500)				\$ (148,500)
12	Regulatory Expense	\$ (71,206)	\$ (71,206)			
13	Insurance Other Than Group	\$ -				
14	Customer Accounting	\$ -				
15	Rents	\$ -				
16	General Office Expense	\$ -				
17	Miscellaneous	\$ -				
18	Maintenance Expense	\$ -				
19	Depreciation & Amortization	\$ (11,978)				
20	General Taxes - Property Taxes	\$ -				
21	General Taxes - Other	\$ -				
15	<b>PRE-TAX OPERATING EXPENSES</b>	\$ (717,896)	\$ (71,206)	\$ (42,852)	\$ (67,992)	\$ (148,500)
16	<b>PRE-TAX OPERATING INCOME</b>	\$ 717,896	\$ 71,206	\$ 42,852	\$ 67,992	\$ 148,500
17	Income Taxes	\$ 264,648	\$ 27,486	\$ 16,541	\$ 26,245	\$ 57,321
18	<b>TOTAL OPERATING EXPENSES</b>	\$ (453,248)	\$ (43,720)	\$ (26,311)	\$ (41,747)	\$ (91,179)
19	<b>OPERATING INCOME</b>	\$ 453,248	\$ 43,720	\$ 26,311	\$ 41,747	\$ 91,179

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Test Year Ended March 31, 2008

Line No.	Description	Management				
		OPEB Expense	Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation
		C-6	C-7	C-9	C-10	C-11
<b>Revenues</b>						
1	Sewer Revenues					
2	Other Revenues					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>						
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees			\$ (44,783)	\$ (151,004)	\$ (141,086)
10	Group Insurance	\$ (5,706)				
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					
20	General Taxes - Property Taxes		\$ (9,125)			
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$ (5,706)	\$ (9,125)	\$ (44,783)	\$ (151,004)	\$ (141,086)
16	PRE-TAX OPERATING INCOME	\$ 5,706	\$ 9,125	\$ 44,783	\$ 151,004	\$ 141,086
17	Income Taxes	\$ 2,203	\$ 3,522	\$ 17,286	\$ 58,287	\$ 54,459
18	TOTAL OPERATING EXPENSES	\$ (3,503)	\$ (5,603)	\$ (27,497)	\$ (92,717)	\$ (86,627)
19	OPERATING INCOME	\$ 3,503	\$ 5,603	\$ 27,497	\$ 92,717	\$ 86,627

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Total of Wastewater District  
Summary of Net Operating Income Adjustments

Attachment RCS-3  
Schedule C.1  
Docket No. SW-01303A-09-0343  
Page 3 of 3

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalize Affiliate Pension Expense C-12	Management Fees - Normalize Affiliate OPEB Expense C-13	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15	Depreciation Expense Related to Plant Retirements C-17
<b>Revenues</b>						
1	Sewer Revenues					
2	Other Revenues					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>						
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees	\$ (2,338)	\$ (3,958)	\$ (26,493)		
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					
20	General Taxes - Property Taxes					\$ (2,853)
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$ (2,338)	\$ (3,958)	\$ (26,493)	\$ -	\$ (2,853)
16	PRE-TAX OPERATING INCOME	\$ 2,338	\$ 3,958	\$ 26,493	\$ -	\$ 2,853
17	Income Taxes	\$ 903	\$ 1,528	\$ 10,226	\$ (12,460)	\$ 1,101
18	TOTAL OPERATING EXPENSES	\$ (1,435)	\$ (2,430)	\$ (16,267)	\$ (12,460)	\$ (1,752)
19	OPERATING INCOME	\$ 1,435	\$ 2,430	\$ 16,267	\$ 12,460	\$ 1,752

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Wastewater Districts  
Capital Structure and Cost Rates

Attachment RCS-3  
Schedule D  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Percent (B)	Cost Rate (C)	Weighted Cost (D)
<b>Per Company</b>					
1	Long-Term Debt	\$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	\$ 154,949,595	45.15%	12.25%	5.53%
4	Total	\$ 343,157,735	100.00%		8.53%

<b>Per RUCO</b>					
5	Long-Term Debt	\$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	\$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	\$ 154,949,595	39.15%	9.50%	3.72%
8	Total	\$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

Notes and Source

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)

Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-3  
Schedule A (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (AAF)	\$ 47,735,732	\$ 47,558,242	\$ (177,490)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 4,071,858	\$ 3,221,595	\$ (850,263)
4	Adjusted net operating income	C (AAF)	\$ (191,785)	\$ 23,202	\$ 214,987
5	Net operating income deficiency		\$ 4,263,643	\$ 3,198,393	\$ (1,065,250)
6	Gross revenue conversion factor	A-1 (AAF)	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 7,060,837	\$ 5,296,731	\$ (1,764,106)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 8,634,567	\$ 8,634,567	
9	Percentage Increase	L.7 / L.8	81.77%	61.34%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

**Calculation of RUCO recommended percentage increase to AAWC's base rates**

AAWC's adjusted water revenues per Schedule C	RUCO Proposed
RUCO recommended rate increase (line 7 above)	\$ 8,634,567
Total revenues after reflecting RUCO recommended increase	\$ 5,296,731
Percentage change in revenues	\$ 13,931,298
	61.34%

**Calculation of AAWC's proposed percentage increase to base rates**

AAWC's adjusted water revenues per Schedule C	AAWC Proposed
AAWC proposed rate increase (line 7 above)	\$ 8,634,567
Total revenues after reflecting AAWC proposed increase	\$ 7,060,837
Percentage change in revenues	\$ 15,695,404
	81.77%

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule A-1 (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6561</b>	<b>1.6561</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 3,198,399	60.38%
12 Federal Income Taxes	\$ 1,675,403	31.63%
13 State Income Taxes	\$ 369,076	6.97%
14 Property Taxes	\$ 37,417	0.71%
15 Uncollectibles	\$ 16,436	0.31%
16 Total Revenue Increase	<u>\$ 5,296,731</u>	<u>100.00%</u>
17 Total Revenue Increase (From Schedule A)	<u>\$ 5,296,731</u>	

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Adjusted Rate Base

Attachment RCS-3  
Schedule B (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 131,361,186	\$ (52,636)	\$ 131,308,550
2	Accumulated Depreciation	\$ (22,837,366)	\$ 52,636	\$ (22,784,730)
3	<b>Net Utility Plant in Service</b>	<b>\$ 108,523,819</b>	<b>\$ -</b>	<b>\$ 108,523,819</b>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (48,273,364)	\$ -	\$ (48,273,364)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,829,151)	\$ (65,490)	\$ (13,894,641)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (143,475)	\$ -	\$ (143,475)
10	Deferred Income Taxes and Credits	\$ 1,049,621	\$ -	\$ 1,049,621
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<b>\$ (61,196,369)</b>	<b>\$ (65,490)</b>	<b>\$ (61,261,859)</b>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 75,382	\$ -	\$ 75,382
16	Allowance for Working Capital	\$ 332,901	\$ (112,000)	\$ 220,901
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<b>\$ 408,282</b>	<b>\$ (112,000)</b>	<b>\$ 296,282</b>
19	<b>Total Rate Base</b>	<b>\$ 47,735,732</b>	<b>\$ (177,490)</b>	<b>\$ 47,558,242</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Summary of Adjustments to Rate Base

Attachment RCS-3  
Schedule B.1 (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Plant Retirements -		
			Anthem/Agua Fria Wastewater	Contributions in Aid of Construction	Cash Working Capital
			B-2	B-3	B-4
1	Gross Utility Plant in Service	\$ (52,636)	\$ (52,636)		
2	Accumulated Depreciation	\$ 52,636	\$ 52,636		
3	<b>Net Utility Plant in Service</b>	\$ -	\$ -	\$ -	\$ -
<b>Less:</b>					
4	Advances in Aid of Construction	-			
5	Contributions in Aid of Construction (net of amortization)	\$ (65,490)	\$	\$ (65,490)	
6	Imputed Regulatory Advances	-			
7	Imputed Regulatory Contributions	-			
10	Deferred Income Taxes and Credits	-			
11	Investment Tax Credits and Other Deferred Credits	-			
12	<b>Total Reductions</b>	\$ (65,490)	\$ -	\$ (65,490)	\$ -
<b>Plus:</b>					
13	Unamortized Finance Charges	-			
14	Deferred Tax Assets	-			
15	Deferred Debits	-			
16	Allowance for Working Capital	\$ (112,000)			\$ (112,000)
17	Utility Plant Acquisition Adjustment	-			
18	<b>Total Additions</b>	\$ (112,000)	\$ -	\$ -	\$ (112,000)
18	<b>Total Rate Base</b>	\$ (177,490)	\$ -	\$ (65,490)	\$ (112,000)

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule C (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 8,634,567	\$ -	\$ 8,634,567
2	Other Revenues	\$ 2,556	\$ -	\$ 2,556
3	<b>Total Revenues</b>	<u>\$ 8,637,123</u>	<u>\$ -</u>	<u>\$ 8,637,123</u>
<b>Operating Expenses</b>				
4	Labor	\$ 1,335,278	\$ (49,598)	\$ 1,285,680
5	Purchased Water	\$ 3,368	\$ -	\$ 3,368
6	Fuel & Power	\$ 278,664	\$ -	\$ 278,664
7	Chemicals	\$ 303,374	\$ -	\$ 303,374
8	Waste Disposal	\$ 199,095	\$ -	\$ 199,095
9	Management Fees	\$ 1,528,005	\$ (173,758)	\$ 1,354,247
10	Group Insurance	\$ 396,599	\$ (2,682)	\$ 393,917
11	Pensions	\$ 221,640	\$ (72,483)	\$ 149,157
12	Regulatory Expense	\$ 80,939	\$ (31,679)	\$ 49,260
13	Insurance Other Than Group	\$ 94,566	\$ -	\$ 94,566
14	Customer Accounting	\$ 242,170	\$ -	\$ 242,170
15	Rents	\$ 84,483	\$ -	\$ 84,483
16	General Office Expense	\$ 85,697	\$ -	\$ 85,697
17	Miscellaneous	\$ 534,489	\$ (4,289)	\$ 530,200
18	Maintenance Expense	\$ 246,204	\$ -	\$ 246,204
19	Depreciation & Amortization	\$ 3,830,808	\$ (2,853)	\$ 3,827,955
20	General Taxes - Property Taxes	\$ 296,804	\$ -	\$ 296,804
21	General Taxes - Other	\$ 87,538	\$ -	\$ 87,538
22	Income Taxes	\$ (1,020,813)	\$ 122,355	\$ (898,458)
23	<b>Total Operating Expenses</b>	<u>\$ 8,828,908</u>	<u>\$ (214,987)</u>	<u>\$ 8,613,921</u>
24	<b>Utility Operating Income</b>	<u>\$ (191,785)</u>	<u>\$ 214,987</u>	<u>\$ 23,202</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (1,432,072)		\$ (1,432,072)
27	Other Expense	\$ (18,575)		\$ (18,575)
28	Gain/Loss Sale of Fixed Assets	\$ (4)		\$ (4)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (1,450,651)</u>	<u>\$ -</u>	<u>\$ (1,450,651)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (1,642,436)</u>	<u>\$ 214,987</u>	<u>\$ (1,427,449)</u>
31	Rate Base	<u>\$ 47,735,732</u>	<u>\$ (177,490)</u>	<u>\$ 47,558,242</u>
32	Earned Rate of Return	<u>-0.40%</u>		<u>0.05%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1

Col.B: Schedule C.1

Col.C: Col.A + Col.B

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>							
1	Sewer Revenues	\$ -					
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor	\$ (49,598)		\$ (17,639)	\$ (31,959)		
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (173,758)					
10	Group Insurance	\$ (2,682)					
11	Pensions	\$ (72,483)				\$ (72,483)	
12	Regulatory Expense	\$ (31,679)	\$ (31,679)				\$ (2,682)
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (4,289)					
18	Maintenance Expense	\$ -					
19	Depreciation & Amortization	\$ (2,853)					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	PRE-TAX OPERATING EXPENSES	\$ (337,342)	\$ (31,679)	\$ (17,639)	\$ (31,959)	\$ (72,483)	\$ (2,682)
16	PRE-TAX OPERATING INCOME	\$ 337,342	\$ 31,679	\$ 17,639	\$ 31,959	\$ 72,483	\$ 2,682
17	Income Taxes	\$ 122,355	\$ 12,228	\$ 6,809	\$ 12,336	\$ 27,978	\$ 1,035
18	TOTAL OPERATING EXPENSES	\$ (214,987)	\$ (19,451)	\$ (10,830)	\$ (19,623)	\$ (44,505)	\$ (1,647)
19	OPERATING INCOME	\$ 214,987	\$ 19,451	\$ 10,830	\$ 19,623	\$ 44,505	\$ 1,647

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Anthem/Agua Fria Wastew  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management						
		Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Normalize Affiliate Pension Expense	Management Fees - Normalized Affiliate OPEB Expense	
		C-7	C-9	C-10	C-11	C-12	C-13	
<b>Revenues</b>								
1	Sewer Revenues							
2	Other Revenues							
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Operating Expenses</b>								
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees		\$ (21,050)	\$ (70,978)	\$ (66,317)	\$ (1,099)	\$ (1,860)	
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous	\$ (4,289)						
18	Maintenance Expense							
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	\$ (4,289)	\$ (21,050)	\$ (70,978)	\$ (66,317)	\$ (1,099)	\$ (1,860)	
16	PRE-TAX OPERATING INCOME	\$ 4,289	\$ 21,050	\$ 70,978	\$ 66,317	\$ 1,099	\$ 1,860	
17	Income Taxes	\$ 1,656	\$ 8,125	\$ 27,398	\$ 25,598	\$ 424	\$ 718	
18	TOTAL OPERATING EXPENSES	\$ (2,633)	\$ (12,925)	\$ (43,580)	\$ (40,719)	\$ (675)	\$ (1,142)	
19	OPERATING INCOME	\$ 2,633	\$ 12,925	\$ 43,580	\$ 40,719	\$ 675	\$ 1,142	

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Anthem/Agua Fria Wastew  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15	Depreciation Expense Related to Plant Retirements C-17
<b>Revenues</b>				
1	Sewer Revenues			
2	Other Revenues			
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>				
4	Labor			
5	Purchased Water			
6	Fuel & Power			
7	Chemicals			
8	Waste Disposal			
9	Management Fees	\$ (12,453)		
10	Group Insurance			
11	Pensions			
12	Regulatory Expense			
13	Insurance Other Than Group			
14	Customer Accounting			
15	Rents			
16	General Office Expense			
17	Miscellaneous			
18	Maintenance Expense			
19	Depreciation & Amortization			\$ (2,853)
20	General Taxes - Property Taxes			
21	General Taxes - Other			
15	PRE-TAX OPERATING EXPENSES	\$ (12,453)	\$ -	\$ (2,853)
16	PRE-TAX OPERATING INCOME	\$ 12,453	\$ -	\$ 2,853
17	Income Taxes	\$ 4,807	\$ (7,858)	\$ 1,101
18	TOTAL OPERATING EXPENSES	\$ (7,646)	\$ (7,858)	\$ (1,752)
19	OPERATING INCOME	\$ 7,646	\$ 7,858	\$ 1,752

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-3  
Schedule A (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	\$ 14,764,087	\$ 14,660,342	\$ (103,745)
2	Rate of return	D (SC)	8.53%	6.77%	
3	Net operating income required		\$ 1,259,377	\$ 993,092	\$ (266,285)
4	Adjusted net operating income	C (SC)	\$ (51,593)	\$ 64,724	\$ 116,317
5	Net operating income deficiency		\$ 1,310,969	\$ 928,368	\$ (382,601)
6	Gross revenue conversion factor	A-1 (SC)	1.6453	1.6453	
7	Revenue deficiency (Sufficiency)		\$ 2,156,882	\$ 1,527,407	\$ (629,475)

Percentage Increase Over Current Rates

8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 5,933,970	\$ 5,933,970	
9	Percentage Increase	L.7 / L.8	36.35%	25.74%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C	RUCO Proposed
RUCO recommended rate increase (line 7 above)	\$ 5,933,970
Total revenues after reflecting RUCO recommended increase	\$ 1,527,407
Percentage change in revenues	\$ 7,461,377
	25.74%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C	AAWC Proposed
AAWC proposed rate increase (line 7 above)	\$ 5,933,970
Total revenues after reflecting AAWC proposed increase	\$ 2,156,882
Percentage change in revenues	\$ 8,090,852
	36.35%

Arizona American Water Company - Sun City Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule A-1 (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.54%	0.54%
3	Bad Debt Expense	0.08%	0.08%
4	Taxable Income as a Percent	99.38%	99.38%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.75%	67.75%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.78%	60.78%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6453</b>	<b>1.6453</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11 Net Income	\$ 928,369	60.78%
12 Federal Income Taxes	\$ 483,132	31.63%
13 State Income Taxes	\$ 106,430	6.97%
14 Property Taxes	\$ 8,282	0.54%
15 Uncollectibles	\$ 1,193	0.08%
16 Total Revenue Increase	<u>\$ 1,527,406</u>	<u>100.00%</u>
17 Total Revenue Increase (From Schedule A)	<u>\$ 1,527,407</u>	

Arizona American Water Company - Sun City Wastewater  
Adjusted Rate Base

Attachment RCS-3  
Schedule B (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 24,469,337	\$ -	\$ 24,469,337
2	Accumulated Depreciation	\$ (10,761,769)	\$ -	\$ (10,761,769)
3	<b>Net Utility Plant in Service</b>	<u>\$ 13,707,569</u>	<u>\$ -</u>	<u>\$ 13,707,569</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (2,660,292)	\$ -	\$ (2,660,292)
5	Contributions in Aid of Construction (net of amortization)	\$ (12,327)	\$ (3,743)	\$ (16,070)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (360,708)	\$ -	\$ (360,708)
10	Deferred Income Taxes and Credits	\$ 1,824,256	\$ -	\$ 1,824,256
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<u>\$ (1,209,071)</u>	<u>\$ (3,743)</u>	<u>\$ (1,212,814)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 2,057,405	\$ -	\$ 2,057,405
16	Allowance for Working Capital	\$ 208,182	\$ (100,000)	\$ 108,182
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 2,265,587</u>	<u>\$ (100,000)</u>	<u>\$ 2,165,587</u>
19	<b>Total Rate Base</b>	<u>\$ 14,764,087</u>	<u>\$ (103,743)</u>	<u>\$ 14,660,342</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City Wastewater  
Summary of Adjustments to Rate Base

Attachment RCS-3  
Schedule B.1 (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction B-3	Cash Working Capital B-4
1	Gross Utility Plant in Service	\$ -		
2	Accumulated Depreciation	\$ -		
3	<b>Net Utility Plant in Service</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ -		
5	Contributions in Aid of Construction (net of amortization)	\$ (3,743)	\$ (3,743)	
6	Imputed Regulatory Advances	\$ -		
7	Imputed Regulatory Contributions	\$ -		
10	Deferred Income Taxes and Credits	\$ -		
11	Investment Tax Credits and Other Deferred Credits	\$ -		
12	<b>Total Reductions</b>	<u>\$ (3,743)</u>	<u>\$ (3,743)</u>	<u>\$ -</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -		
14	Deferred Tax Assets	\$ -		
15	Deferred Debits	\$ -		
16	Allowance for Working Capital	\$ (100,000)		\$ (100,000)
17	Utility Plant Acquisition Adjustment	\$ -		
18	<b>Total Additions</b>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ (100,000)</u>
18	<b>Total Rate Base</b>	<u>\$ (103,743)</u>	<u>\$ (3,743)</u>	<u>\$ (100,000)</u>

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule C (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C )
<b>Revenues</b>				
1	Sewer Revenues	\$ 5,933,970	\$ -	\$ 5,933,970
2	Other Revenues	\$ 6,411	\$ -	\$ 6,411
3	<b>Total Revenues</b>	<u>\$ 5,940,381</u>	<u>\$ -</u>	<u>\$ 5,940,381</u>
<b>Operating Expenses</b>				
4	Labor	\$ 454,529	\$ (30,290)	\$ 424,239
5	Purchased Water	\$ -	\$ -	\$ -
6	Fuel & Power	\$ 15,804	\$ -	\$ 15,804
7	Chemicals	\$ 4,885	\$ -	\$ 4,885
8	Waste Disposal	\$ 3,300,475	\$ -	\$ 3,300,475
9	Management Fees	\$ 933,155	\$ (106,114)	\$ 827,041
10	Group Insurance	\$ 141,193	\$ (1,638)	\$ 139,555
11	Pensions	\$ 75,595	\$ (25,187)	\$ 50,408
12	Regulatory Expense	\$ 49,683	\$ (20,573)	\$ 29,110
13	Insurance Other Than Group	\$ 57,656	\$ -	\$ 57,656
14	Customer Accounting	\$ 145,686	\$ -	\$ 145,686
15	Rents	\$ 40,868	\$ -	\$ 40,868
16	General Office Expense	\$ 44,944	\$ -	\$ 44,944
17	Miscellaneous	\$ 104,503	\$ (2,620)	\$ 101,883
18	Maintenance Expense	\$ 61,533	\$ -	\$ 61,533
19	Depreciation & Amortization	\$ 679,999	\$ -	\$ 679,999
20	General Taxes - Property Taxes	\$ 157,456	\$ -	\$ 157,456
21	General Taxes - Other	\$ 34,880	\$ -	\$ 34,880
22	Income Taxes	\$ (310,869)	\$ 70,105	\$ (240,764)
23	<b>Total Operating Expenses</b>	<u>\$ 5,991,974</u>	<u>\$ (116,317)</u>	<u>\$ 5,875,657</u>
24	<b>Utility Operating Income</b>	<u>\$ (51,593)</u>	<u>\$ 116,317</u>	<u>\$ 64,724</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (442,923)		\$ (442,923)
27	Other Expense	\$ (11,344)		\$ (11,344)
28	Gain/Loss Sale of Fixed Assets	\$ 3		\$ 3
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (454,264)</u>	<u>\$ -</u>	<u>\$ (454,264)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (505,857)</u>	<u>\$ 116,317</u>	<u>\$ (389,540)</u>
31	Rate Base	<u>\$ 14,764,087</u>	<u>\$ (103,743)</u>	<u>\$ 14,660,344</u>
32	Earned Rate of Return	<u>-0.35%</u>		<u>0.44%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1

Col.B: Schedule C.1

Col.C: Col.A + Col.B

Arizona American Water Company - Sun City Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6	Dues, Donations & Miscellaneous Expenses C-7
<b>Revenues</b>								
1	Sewer Revenues	\$ -						
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor	\$ (30,290)		\$ (10,772)	\$ (19,518)			
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (106,114)						
10	Group Insurance	\$ (1,638)					\$ (1,638)	
11	Pensions	\$ (25,187)				\$ (25,187)		
12	Regulatory Expense	\$ (20,573)	\$ (20,573)					
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (2,620)						\$ (2,620)
18	Maintenance Expense	\$ -						
19	Depreciation & Amortization	\$ -						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	PRE-TAX OPERATING EXPENSES	\$ (186,422)	\$ (20,573)	\$ (10,772)	\$ (19,518)	\$ (25,187)	\$ (1,638)	\$ (2,620)
16	PRE-TAX OPERATING INCOME	\$ 186,422	\$ 20,573	\$ 10,772	\$ 19,518	\$ 25,187	\$ 1,638	\$ 2,620
17	Income Taxes	\$ 70,105	\$ 7,941	\$ 4,158	\$ 7,534	\$ 9,722	\$ 632	\$ 1,011
18	TOTAL OPERATING EXPENSES	\$ (116,317)	\$ (12,632)	\$ (6,614)	\$ (11,984)	\$ (15,465)	\$ (1,006)	\$ (1,609)
19	OPERATING INCOME	\$ 116,317	\$ 12,632	\$ 6,614	\$ 11,984	\$ 15,465	\$ 1,006	\$ 1,609

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

38.60%

Arizona American Water Company - Sun City Wastew.  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management					C-15	
		Management Fees - Normalize	Management Fees - Normalize	Management Fees - Normalize	Management Fees - Normalize	Management Fees - Normalize	C-14	C-15
		Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Management Fees - Affiliate Pension Expense	Management Fees - Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	Interest Synchronization
		C-9	C-10	C-11	C-12	C-13	C-14	C-15
<b>Revenues</b>								
1	Sewer Revenues							
2	Other Revenues							
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees	\$ (12,855)	\$ (43,347)	\$ (40,500)	\$ (671)	\$ (1,136)	\$ (7,605)	
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous							
18	Maintenance Expense							
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	\$ (12,855)	\$ (43,347)	\$ (40,500)	\$ (671)	\$ (1,136)	\$ (7,605)	\$ -
16	PRE-TAX OPERATING INCOME	\$ 12,855	\$ 43,347	\$ 40,500	\$ 671	\$ 1,136	\$ 7,605	\$ -
17	Income Taxes	\$ 4,962	\$ 16,732	\$ 15,633	\$ 259	\$ 439	\$ 2,936	\$ (1,854)
18	TOTAL OPERATING EXPENSES	\$ (7,893)	\$ (26,615)	\$ (24,867)	\$ (412)	\$ (697)	\$ (4,669)	\$ (1,854)
19	OPERATING INCOME	\$ 7,893	\$ 26,615	\$ 24,867	\$ 412	\$ 697	\$ 4,669	\$ 1,854

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sched

Arizona American Water Company - Sun City West Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-3  
Schedule A (SCW)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SCW)	\$ 17,821,272	\$ 17,739,272	\$ (82,000)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 1,520,155	\$ 1,201,658	\$ (318,497)
4	Adjusted net operating income	C (SCW)	\$ 618,443	\$ 740,390	\$ 121,947
5	Net operating income deficiency		\$ 901,712	\$ 461,268	\$ (440,444)
6	Gross revenue conversion factor	A-1 (SCW)	1.6422	1.6422	
7	Revenue deficiency (Sufficiency)		\$ 1,480,756	\$ 757,477	\$ (723,279)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 5,660,389	\$ 5,660,389	
9	Percentage Increase	L.7 / L.8	26.16%	13.38%	

Notes and Source

Col.A: AAWC Filing, Revised Schedule A-1

<b>Calculation of RUCO recommended percentage increase to AAWC's base rates</b>			RUCO Proposed
AAWC's adjusted water revenues per Schedule C			\$ 5,660,389
RUCO recommended rate increase (line 7 above)			\$ 757,477
Total revenues after reflecting RUCO recommended increase			\$ 6,417,866
Percentage change in revenues			13.38%
<b>Calculation of AAWC's proposed percentage increase to base rates</b>			AAWC Proposed
AAWC's adjusted water revenues per Schedule C			\$ 5,660,389
AAWC proposed rate increase (line 7 above)			\$ 1,480,756
Total revenues after reflecting AAWC proposed increase			\$ 7,141,145
Percentage change in revenues			26.16%

Arizona American Water Company - Sun City West Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule A-1 (SCW)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.49%	0.49%
3	Bad Debt Expense	0.02%	0.02%
4	Taxable Income as a Percent	99.49%	99.49%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.86%	67.86%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.90%	60.90%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6422</b>	<b>1.6422</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3

Combined state and federal income tax rate	38.60%	38.60%
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**Components of Revenue Requirement Increase**

	Amount	Percent
11 Net Income	\$ 461,268	60.90%
12 Federal Income Taxes	\$ 239,597	31.63%
13 State Income Taxes	\$ 52,781	6.97%
14 Property Taxes	\$ 3,699	0.49%
15 Uncollectibles	\$ 132	0.02%
16 Total Revenue Increase	<u>\$ 757,477</u>	<u>100.00%</u>
17 Total Revenue Increase (From Schedule A)	<u>\$ 757,477</u>	

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 35,931,696	\$ -	\$ 35,931,696
2	Accumulated Depreciation	\$ (19,183,739)	\$ -	\$ (19,183,739)
3	<b>Net Utility Plant in Service</b>	<b>\$ 16,747,956</b>	<b>\$ -</b>	<b>\$ 16,747,956</b>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (145,453)	\$ -	\$ (145,453)
5	Contributions in Aid of Construction (net of amortization)	\$ (4,747)	\$ -	\$ (4,747)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (443,212)	\$ -	\$ (443,212)
10	Deferred Income Taxes and Credits	\$ 1,243,135	\$ -	\$ 1,243,135
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<b>\$ 649,723</b>	<b>\$ -</b>	<b>\$ 649,723</b>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 108,771	\$ -	\$ 108,771
16	Allowance for Working Capital	\$ 314,822	\$ (82,000)	\$ 232,822
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<b>\$ 423,593</b>	<b>\$ (82,000)</b>	<b>\$ 341,593</b>
19	<b>Total Rate Base</b>	<b>\$ 17,821,272</b>	<b>\$ (82,000)</b>	<b>\$ 17,739,272</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City West Wastewater  
Summary of Adjustments to Rate Base

Attachment RCS-3  
Schedule B.1 (SCW)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Contributions in Aid of		Cash Working Capital
			Construction	B-3	
					B-4
1	Gross Utility Plant in Service	\$ -			
2	Accumulated Depreciation	\$ -			
3	<b>Net Utility Plant in Service</b>	\$ -	\$ -		\$ -
<b>Less:</b>					
4	Advances in Aid of Construction	\$ -			
5	Contributions in Aid of Construction (net of amortization)	\$ -	\$ -		
6	Imputed Regulatory Advances	\$ -			
7	Imputed Regulatory Contributions	\$ -			
10	Deferred Income Taxes and Credits	\$ -			
11	Investment Tax Credits and Other Deferred Credits	\$ -			
12	<b>Total Reductions</b>	\$ -	\$ -		\$ -
<b>Plus:</b>					
13	Unamortized Finance Charges	\$ -			
14	Deferred Tax Assets	\$ -			
15	Deferred Debits	\$ -			
16	Allowance for Working Capital	\$ (82,000)			\$ (82,000)
17	Utility Plant Acquisition Adjustment	\$ -			
18	<b>Total Additions</b>	\$ (82,000)	\$ -		\$ (82,000)
18	<b>Total Rate Base</b>	\$ (82,000)	\$ -		\$ (82,000)

Notes and Source  
See referenced exhibit for each adjustment

Arizona American Water Company - Sun City West Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3  
Schedule C (SCW)  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C )
<b>Revenues</b>				
1	Sewer Revenues	\$ 5,660,389	\$ -	\$ 5,660,389
2	Other Revenues	\$ 1,321	\$ -	\$ 1,321
3	<b>Total Revenues</b>	<u>\$ 5,661,710</u>	<u>\$ -</u>	<u>\$ 5,661,710</u>
<b>Operating Expenses</b>				
4	Labor	\$ 766,759	\$ (30,956)	\$ 735,803
5	Purchased Water	\$ 7,156	\$ -	\$ 7,156
6	Fuel & Power	\$ 385,512	\$ -	\$ 385,512
7	Chemicals	\$ 401,682	\$ -	\$ 401,682
8	Waste Disposal	\$ 103,272	\$ -	\$ 103,272
9	Management Fees	\$ 789,604	\$ (89,790)	\$ 699,814
10	Group Insurance	\$ 267,064	\$ (1,386)	\$ 265,678
11	Pensions	\$ 150,285	\$ (50,830)	\$ 99,455
12	Regulatory Expense	\$ 43,794	\$ (18,954)	\$ 24,840
13	Insurance Other Than Group	\$ 48,786	\$ -	\$ 48,786
14	Customer Accounting	\$ 123,968	\$ -	\$ 123,968
15	Rents	\$ 38,079	\$ -	\$ 38,079
16	General Office Expense	\$ 49,950	\$ -	\$ 49,950
17	Miscellaneous	\$ 243,174	\$ (2,216)	\$ 240,958
18	Maintenance Expense	\$ 138,620	\$ -	\$ 138,620
19	Depreciation & Amortization	\$ 1,238,799	\$ -	\$ 1,238,799
20	General Taxes - Property Taxes	\$ 135,172	\$ -	\$ 135,172
21	General Taxes - Other	\$ 58,909	\$ -	\$ 58,909
22	Income Taxes	\$ 52,682	\$ 72,186	\$ 124,868
23	<b>Total Operating Expenses</b>	<u>\$ 5,043,267</u>	<u>\$ (121,947)</u>	<u>\$ 4,921,320</u>
24	<b>Utility Operating Income</b>	<u>\$ 618,443</u>	<u>\$ 121,947</u>	<u>\$ 740,390</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (534,638)	\$ -	\$ (534,638)
27	Other Expense	\$ (9,599)	\$ -	\$ (9,599)
28	Gain/Loss Sale of Fixed Assets	\$ 2	\$ -	\$ 2
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (544,235)</u>	<u>\$ -</u>	<u>\$ (544,235)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ 74,208</u>	<u>\$ 121,947</u>	<u>\$ 196,155</u>
31	<b>Rate Base</b>	<u>\$ 17,821,272</u>	<u>\$ (82,000)</u>	<u>\$ 17,739,272</u>
32	<b>Earned Rate of Return</b>	<u>3.47%</u>		<u>4.17%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>							
1	Sewer Revenues	\$ -					
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor	\$ (30,956)		\$ (14,441)	\$ (16,515)		
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (89,790)					
10	Group Insurance	\$ (1,386)					\$ (1,386)
11	Pensions	\$ (50,830)				\$ (50,830)	
12	Regulatory Expense	\$ (18,954)	\$ (18,954)				
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (2,216)					
18	Maintenance Expense	\$ -					
19	Depreciation & Amortization	\$ -					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	PRE-TAX OPERATING EXPENSES	\$ (194,133)	\$ (18,954)	\$ (14,441)	\$ (16,515)	\$ (50,830)	\$ (1,386)
16	PRE-TAX OPERATING INCOME	\$ 194,133	\$ 18,954	\$ 14,441	\$ 16,515	\$ 50,830	\$ 1,386
17	Income Taxes	\$ 72,186	\$ 7,316	\$ 5,574	\$ 6,375	\$ 19,620	\$ 535
18	TOTAL OPERATING EXPENSES	\$ (121,947)	\$ (11,638)	\$ (8,867)	\$ (10,140)	\$ (31,210)	\$ (851)
19	OPERATING INCOME	\$ 121,947	\$ 11,638	\$ 8,867	\$ 10,140	\$ 31,210	\$ 851

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

38.60%

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Miscellaneous Expenses C-7	Management Fees - Other Expenses C-9	Management Fees - Affiliate Employee Benefits C-10	Management Fees - Affiliate Incentive Compensation C-11	Management Fees - Normalized Affiliate Pension Expense C-12	Management Fees - Normalize Affiliate OPEB Expense C-13
<b>Revenues</b>							
1	Sewer Revenues						
2	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees	\$	(10,878)	\$	(34,269)	\$	(568)
10	Group Insurance						(961)
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	\$ (2,216)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	\$ (2,216)	\$ (10,878)	\$ (36,678)	\$ (34,269)	\$ (568)	\$ (961)
16	PRE-TAX OPERATING INCOME	\$ 2,216	\$ 10,878	\$ 36,678	\$ 34,269	\$ 568	\$ 961
17	Income Taxes	\$ 855	\$ 4,199	\$ 14,158	\$ 13,228	\$ 219	\$ 371
18	TOTAL OPERATING EXPENSES	\$ (1,361)	\$ (6,679)	\$ (22,520)	\$ (21,041)	\$ (349)	\$ (590)
19	OPERATING INCOME	\$ 1,361	\$ 6,679	\$ 22,520	\$ 21,041	\$ 349	\$ 590

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15
<b>Revenues</b>			
1	Sewer Revenues		
2	Other Revenues		
3	<b>Total Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>			
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees	\$ (6,435)	
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		
20	General Taxes - Property Taxes		
21	General Taxes - Other	\$ (6,435)	\$ -
15	PRE-TAX OPERATING EXPENSES	\$ 6,435	\$ -
16	PRE-TAX OPERATING INCOME	\$ 2,484	\$ (2,748)
17	Income Taxes	\$ (3,951)	\$ (2,748)
18	TOTAL OPERATING EXPENSES	\$ 3,951	\$ 2,748
19	OPERATING INCOME		

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company  
 Plant Retirements - Anthem/Agua Fria Wastewater

Test Year Ended December 31, 2008

Attachment RCS-3  
 Schedule B-2  
 Docket No. SW-01303A-09-0343  
 Page 1 of 1

Line No.	Description	Amount (A)	Reference
1	Remove Two 75-HP Final Effluent Pumps From Utility Plant in Service	\$ (52,636)	A
2	Reduce Accumulated Depreciation to Reflect the Retirement of Two 75-HP Final Effluent Pumps	\$ 52,636	
3	Net Adjustment to Utility Plant in Service	\$ -	

Notes and Source

A: Amount per AAWC's response to STF 7.3

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Cash Working Capital Requirement Per Filing	\$ 285,666	\$ 129,827	\$ 229,465	\$ 644,958	A
2	RUCO Recommended Cash Working Capital Requirement	\$ 173,247	\$ 29,372	\$ 147,006	\$ 349,625	B
3	Adjustment to Cash Working Capital	\$ (112,419)	\$ (100,455)	\$ (82,459)	\$ (295,333)	
4	Adjustment to Cash Working Capital Rounded to Nearest \$000	\$ (112,000)	\$ (100,000)	\$ (82,000)	\$ (294,000)	

Notes and Source

A: AAWC filing, Schedule B-6

B: See Schedules B-2 (AAF), B-2 (SC) and B-2 (SCW)

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Cash Working Capital Required (H)	Reference
<b>OPERATING EXPENSES</b>									
1	P08 Labor	\$ 1,335,278	\$ (49,598)	\$ 1,285,680	39.96	12.00	0.0766	\$ 98,483	
2	P09 Purchased Water	\$ 3,368	\$	\$ 3,368	39.96	52.52	(0.0344)	\$ (116)	
3	P10 Fuel & Power	\$ 278,664	\$	\$ 278,664	39.96	23.46	0.0452	\$ 12,596	
4	P11 Chemicals	\$ 303,374	\$	\$ 303,374	39.96	14.63	0.0694	\$ 21,049	
5	P12 Waste disposal	\$ 199,095	\$	\$ 199,095	39.96	26.90	0.0358	\$ 7,124	
6	P13 Management Fees	\$ 1,528,005	\$ (173,758)	\$ 1,354,247	39.96	12.00	0.0766	\$ 103,735	a
7	P14 Group Insurance	\$ 396,599	\$ (2,682)	\$ 393,917	39.96	(13.70)	0.1470	\$ 57,914	
8	P15 Pensions	\$ 221,640	\$ (72,483)	\$ 149,157	39.96	(2.37)	0.1160	\$ 17,297	
9	P17 Insurance Other Than Group	\$ 94,566	\$	\$ 94,566	39.96	(83.68)	0.3387	\$ 32,034	
10	P18 Customer Accounting	\$ 242,170	\$	\$ 242,170	39.96	10.09	0.0818	\$ 19,818	
11	P19 Rents	\$ 84,483	\$	\$ 84,483	39.96	(84.16)	0.3401	\$ 28,729	
12	P21 Miscellaneous	\$ 534,489	\$	\$ 534,489	39.96	16.84	0.0633	\$ 33,858	
13	P25 Maintenance Expense	\$ 246,204	\$	\$ 246,204	39.96	18.24	0.0595	\$ 14,651	
14	Other Operating Expenses	\$ 166,636	\$ (35,968)	\$ 130,668	39.96	30.00	0.0273	\$ 3,565	
15	P29 Property Taxes	\$ 296,804	\$	\$ 296,804	39.96	191.37	(0.4148)	\$ (123,123)	
16	P29 Taxes Other than Income	\$ 87,538	\$	\$ 87,538	39.96	13.35	0.0729	\$ 6,383	
17	P30 Income Tax	\$ 1,659,460	\$ 2,166,834	\$ 3,826,294	39.96	30.13	0.0269	\$ 103,037	
18	P56 Interest Sync	\$ 1,432,072	\$ 20,357	\$ 1,452,429	39.96	106.25	(0.1816)	\$ (263,789)	
19	Working Cash Requirement	\$ 9,110,446	\$ 1,852,702	\$ 10,963,148				\$ 173,247	
20	Working Cash Requirement per Company							\$ 285,666	
21	Adjustment to Cash Working Capital							\$ (112,419)	

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.96. Company used 46.04 revenue lag days

a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	\$ 1,659,460
24	RUCO adjustments to current income taxes	\$ 122,355
25	Income Taxes for Revenue Increase	\$ 2,044,479
26	Total current income taxes for CWC calculation	\$ 3,826,294

Schedule C.1 (AAF), line 17

Schedule A-1 (AAF), lines 12 & 13

Test Year Ended December 31, 2008

Line No.		Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Working Capital Required (H)
<b>OPERATING EXPENSES</b>									
1	P08 Labor	\$ 454,529	\$ (30,290)	\$ 424,239	39.65	12.00	27.65	0.0758	\$ 32,140
2	P10 Fuel & Power	\$ 15,804	\$	\$ 15,804	39.65	20.75	18.91	0.0518	\$ 819
3	P11 Chemicals	\$ 4,885	\$	\$ 4,885	39.65	20.35	19.30	0.0529	\$ 258
4	P12 Waste Disposal	\$ 3,300,475	\$	\$ 3,300,475	39.65	43.73	(4.08)	(0.0112)	\$ (36,919)
5	P13 Management Fees	\$ 933,155	\$ (106,114)	\$ 827,041	39.65	12.00	27.65	0.0758	\$ 62,656
6	P14 Group Insurance	\$ 141,193	\$ (1,638)	\$ 139,555	39.65	(13.67)	53.32	0.1461	\$ 20,388
7	P15 Pensions	\$ 75,595	\$ (25,187)	\$ 50,408	39.65	(2.37)	42.02	0.1151	\$ 5,803
8	P17 Insurance Other Than Group	\$ 57,656	\$	\$ 57,656	39.65	(83.68)	123.34	0.3379	\$ 19,482
9	P18 Customer Accounting	\$ 145,686	\$	\$ 145,686	39.65	10.09	29.56	0.0810	\$ 11,800
10	P19 Rents	\$ 40,868	\$	\$ 40,868	39.65	(93.42)	133.08	0.3646	\$ 14,900
11	P21 Miscellaneous	\$ 104,503	\$	\$ 104,503	39.65	12.47	27.18	0.0745	\$ 7,782
12	P25 Maintenance Expense	\$ 61,533	\$	\$ 61,533	39.65	29.75	9.91	0.0271	\$ 1,670
13	Other Operating Expenses	\$ 94,627	\$ (23,193)	\$ 71,434	39.65	30.00	9.65	0.0264	\$ 1,889
14	P29 Property Taxes	\$ 157,456	\$	\$ 157,456	39.65	189.67	(150.02)	(0.4110)	\$ (64,716)
15	P29 Taxes Other than Income	\$ 34,880	\$	\$ 34,880	39.65	13.35	26.31	0.0721	\$ 2,514
16	P30 Income Tax	\$ 513,251	\$ 659,667	\$ 1,172,918	39.65	30.13	9.52	0.0261	\$ 30,599
17	P56 Interest	\$ 442,923	\$ 4,804	\$ 447,727	39.65	106.25	(66.60)	(0.1825)	\$ (81,692)
18	Total	\$ 6,579,018	\$ 478,049	\$ 7,057,067					

19 Working Cash Requirement  
20 Working Cash Requirement per Company  
21 Adjustment to Cash Working Capital

\$ 29,372  
\$ 129,827  
\$ (100,455)

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.74 revenue lag days

a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23 Per AAWC \$ 513,251  
24 RUCO adjustments to current income taxes \$ 70,105 Schedule C.1 (SC), line 17  
25 Income Taxes for Revenue Increase \$ 589,562 Schedule A-1 (SC), lines 12 & 13  
26 Total current income taxes for CWC calculation \$ 1,172,918

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Cash Working Capital Required Reference (H)
<b>OPERATING EXPENSES</b>								
1	P08 Labor	\$ 766,759	\$ (30,956)	\$ 735,803	39.61	12.00	0.0756	\$ 55,659
2	P09 Purchased Water	\$ 7,156	\$	\$ 7,156	39.61	52.52	(0.0354)	\$ (253)
3	P10 Fuel & Power	\$ 385,512	\$	\$ 385,512	39.61	23.18	0.0450	\$ 17,350
4	P11 Chemicals	\$ 401,682	\$	\$ 401,682	39.61	17.28	0.0612	\$ 24,579
5	P12 Waste Disposal	\$ 103,272	\$	\$ 103,272	39.61	19.93	0.0539	\$ 5,568
6	P13 Management Fees	\$ 789,604	\$ (89,790)	\$ 699,814	39.61	12.00	0.0756	\$ 52,937 a
7	P14 Group Insurance	\$ 267,064	\$ (1,386)	\$ 265,678	39.61	(13.62)	0.1458	\$ 38,742
8	P15 Pensions	\$ 150,285	\$ (50,830)	\$ 99,455	39.61	(2.37)	0.1150	\$ 11,438
9	P17 Insurance Other Than Group	\$ 48,786	\$	\$ 48,786	39.61	(83.68)	0.3378	\$ 16,480
10	P18 Customer Accounting	\$ 123,968	\$	\$ 123,968	39.61	10.09	0.0809	\$ 10,026
11	P19 Rents	\$ 38,079	\$	\$ 38,079	39.61	(72.11)	0.3061	\$ 11,655
12	P21 Miscellaneous	\$ 243,174	\$	\$ 243,174	39.61	9.91	0.0814	\$ 19,789
13	P25 Maintenance Expense	\$ 138,620	\$	\$ 138,620	39.61	26.14	0.0369	\$ 5,117
14	Other Operating Expenses	\$ 93,744	\$ (21,170)	\$ 72,574	39.61	30.00	0.0263	\$ 1,911
15	P29 Property Taxes	\$ 135,000	\$	\$ 135,000	39.61	187.98	(0.4065)	\$ (54,878)
16	P29 Taxes Other than Income	\$ 58,909	\$	\$ 58,909	39.61	13.35	0.0720	\$ 4,239
17	P30 Income Tax	\$ 619,532	\$ 364,564	\$ 984,096	39.61	30.13	0.0260	\$ 25,560
18	P56 Interest Sync	\$ 534,640	\$ 7,117	\$ 541,757	39.61	106.25	(0.1826)	\$ (98,912)
19	Total	\$ 4,905,786	\$ 177,549	\$ 5,083,334				
20	Working Cash Requirement							\$ 147,006
21	Working Cash Requirement per Company							\$ 229,465
22	Adjustment to Cash Working Capital							\$ (82,459)

Notes and Source  
AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.61. Company used 45.63 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	\$ 619,532	
24	RUCO adjustments to current income taxes	\$ 72,186	Schedule C.1 (SCW), line 17
25	Income Taxes for Revenue Increase	\$ 292,378	Schedule A-1 (SCW), lines 12 & 13
26	Total current income taxes for CWC calculation	\$ 984,096	

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	\$ 72,069	\$ 44,090	\$ 39,060	\$ 155,219	A
2	RUCO Recommended Normalized Rate Case Expense	\$ 40,390	\$ 23,517	\$ 20,106	\$ 84,013	B
3	Adjustment to Rate Case Expense	\$ (31,679)	\$ (20,573)	\$ (18,954)	\$ (71,206)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

4	Estimated Rate Case Expense per Company	Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
5	Normalized over three years	\$ 678,425	\$ 678,425	\$ 678,425
6	Estimated Normalized Rate Case Expense	\$ 226,142	\$ 226,142	\$ 226,142
7	2009 Group 4-Factor per Company	26.341%	15.337%	13.113%
8	Allocated Rate Case Expense	\$ 59,569	\$ 34,684	\$ 29,654
9	Unamortized Balance of Prior Rate Case Expense	\$ 37,500	\$ 28,218	\$ 28,218
10	Normalized over three years	\$ 12,500	\$ 9,406	\$ 9,406
11	Annual Amortization of Unamortized Rate Case Expense	\$ 12,500	\$ 9,406	\$ 9,406
12	Pro Forma Rate Case Expense	\$ 72,069	\$ 44,090	\$ 39,060

B: RUCO recommended Rate Case Expense calculated as follows:

13	RUCO recommended Rate Case Expense	\$ 460,000	\$ 460,000	\$ 460,000
14	Normalized over three years	\$ 153,333	\$ 153,333	\$ 153,333
15	Normalized Rate Case Expense	26.341%	15.337%	13.113%
16	2009 Group 4-Factor	\$ 40,390	\$ 23,517	\$ 20,106
17	Allocated Rate Case Expense	\$ 40,390	\$ 23,517	\$ 20,106

Arizona American Water Company  
Achievement Incentive Pay

Attachment RCS-3  
Schedule C-3  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua		Sun City		Sun City West		Total		Reference
		Fria Wastewater	(A)	Wastewater	(B)	Wastewater	(C)	Wastewater	(D)	
1	Achievement Incentive Pay Recorded at 12/31/2008	\$ -		\$ -		\$ 17,753		\$ 17,753		A
2	Corporate Allocation	\$ 58,795		\$ 35,906		\$ 30,382		\$ 125,083		A&B
3	Total Achievement Incentive Pay	\$ 58,795		\$ 35,906		\$ 48,135		\$ 142,836		
4	Disallowance Percentage	30%		30%		30%				C
5	Adjustment to Achievement Incentive Pay	\$ (17,639)		\$ (10,772)		\$ (14,441)		\$ (42,852)		

Notes and Source

- A: Amounts above per Company workpaper "AI-2008" for each district  
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2  
C: Testimony of RUCO witness Ralph Smith

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjustment to Remove Stock-Based Compensation	\$ (31,959)	\$ (19,518)	\$ (16,515)	\$ (67,992)	A

Notes and Source

A: Amounts below from AAWC's response to RUCO 6-3

Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
2 Comp - Stock Options - Account 501716	\$ 36,693	\$ 41,909	\$ 78,602
3 Comp - Restricted Stock - Account 501717	\$ 28,834	\$ 103,974	\$ 132,808
4 Comp - Restricted Stock Units - Account 701718	\$ 4,046	\$ 43,232	\$ 47,278
5 Total Test Year Stock-Based Compensation	\$ 69,573	\$ 189,115	\$ 258,688
6 Total Test Year Stock-Based Compensation	Anthem/Agua Fria Wastewater \$ 258,688	Sun City Wastewater \$ 258,688	Sun City West Wastewater \$ 258,688
7 4-Factor Allocator	12.354%	7.545%	6.3842%
8 Total Allocated Test Year Stock-Based Compensation	\$ 31,959	\$ 19,518	\$ 16,515

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Pro Forma Pension Expense Per Filing	\$ 221,640	\$ 74,281	\$ 148,791	\$ 444,712	A
2	RUCO Recommended Pro Forma Pension Expense	\$ 149,157	\$ 49,094	\$ 97,981	\$ 296,212	B&C
3	Adjustment to Pension Expense	\$ (72,483)	\$ (25,187)	\$ (50,830)	\$ (148,500)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
5 Recorded Pension Expense - 2007	\$ 903,222
6 Recorded Pension Expense - 2008	\$ 1,734,561
7 Subtotal	\$ 2,637,783
8 Normalized Over Two Years	2
9 Normalized Pension Expense	\$ 1,318,892

C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company worksheet "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

Test Year Ended December 31, 2008

Line No.	Description	<div> Anthem/Agua Fria Wastewater (A) </div>	<div> Sun City Wastewater (B) </div>	<div> Sun City West Wastewater (C) </div>	<div> Total Wastewater (D) </div>	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	\$ 78,238	\$ 78,238	\$ 78,238		A
2	4 Factor Allocation Factor	12.354%	7.545%	6.384%		
3	Adjusted Test Year OPEB Expense Per Company	\$ 9,666	\$ 5,903	\$ 4,995	\$ 20,564	
4	RUCO Recommended Pro Forma OPEB Expense	\$ 6,984	\$ 4,265	\$ 3,609	\$ 14,858	
5	Adjustment to OPEB Expense	\$ (2,682)	\$ (1,638)	\$ (1,386)	\$ (5,706)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
7 Recorded OPEB Amount - 2007	\$ 62,603
8 Recorded OPEB Amount - 2008	\$ 75,723
9 Subtotal	\$ 138,326
10 Normalized Over Two Years	2
11 Normalized OPEB Cost	\$ 69,163
12 Capitalization Percentage	18.3%
13 Capitalized Portion of OPEB Cost	\$ (12,634)
14 Expensed Portion of OPEB Cost	\$ 56,529
	L11 + L13
15 4 Factor Allocation Factor	12.354%
16 Anthem/Agua Fria Wastewater Portion of OPEB Expense	\$ 6,984
	L14 x L15
17 4 Factor Allocation Factor	7.545%
18 Sun City Wastewater Portion of OPEB Expense	\$ 4,265
	L14 x L17
21 4 Factor Allocation Factor	6.384%
22 Sun City West Wastewater Portion of OPEB Expense	\$ 3,609
	L14 x L21

Arizona American Water Company  
Interest Synchronization

Attachment RCS-3  
Schedule C-15  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008  
(Thousands of Dollars)

Line No.	Description	Anthem/Aqua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjusted Rate Base, per RUCO	\$ 47,558,242	\$ 14,660,342	\$ 17,739,272	\$ 79,957,856	Schedules B (AAF), B (SC) and B (SCW)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%	3.05%		Per RUCO - Schedule D
3	Interest Deduction for Tax Purposes	\$ 1,452,429	\$ 447,727	\$ 541,757	\$ 2,441,913	L1 x L2
4	Interest Deduction per Company	\$ 1,432,072	\$ 442,923	\$ 534,638	\$ 2,409,633	Note A
5	Difference (Decreased) Increased Interest Deduction	\$ 20,357	\$ 4,804	\$ 7,119	\$ 32,280	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	\$ (7,858)	\$ (1,854)	\$ (2,748)	\$ (12,460)	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Arizona American Water Company  
 Depreciation Expense - Anthem/Agua Fria Wastewater Only

Attachment RCS-3  
 Schedule C-17  
 Docket No. SW-01303A-09-0343  
 Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Reference
1	Two 75-HP Final Effluent Pumps Removed From Utility Plant in Service	\$ (52,636)	A
2	Depreciation Rate	5.42%	B
3	Adjustment to Depreciation Expense	<u>\$ (2,853)</u>	

Notes and Source

A: See Exhibit LA-1, Schedule B-1

B: Depreciation rate taken from rate base Adjustment No. SLM-1 from AAWC's filing

**Arizona-American Water Company**  
**Docket No. W-01303A-09-0343 & SW-01303A-09-0343**  
**Attachment RCS-4**  
**Copies of AAWC's Responses to Data Requests**  
**and Workpapers Referenced in the Direct Testimony and Schedules of**  
**Ralph C. Smith**

Data Request/ Workpaper No.	Subject	Confidential	No. of Pages	Page No.
STF 7.3	Retirement of Two Effluent Pumps form Agua-Fria Wastewater District	No	1	2
RUCO 2-74	Calculations of AAWC Revenue Lag (Attachment 2-74(j) included)	No	3	3 - 5
APS Docket No. E-01315A-08-0172, Workpaper JCL WP11, p. 9	Revenue Lag used in previous Arizona rate cases	No	1	6
TEP Docket No. E-01933A-07-0402 Schedule B-5 (Cost of Service), p. 3	Revenue Lag used in previous Arizona rate cases	No	1	7
UNSG Docket No. G-0402A-08-0571 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	8
UNSE Docket No. E-04204A-09-0206 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	9
UNSE Docket No. E-04204A-06-0783 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	10
SWG Docket No. G-01551A-07-0504 Schedule B-5, p. 2	Revenue Lag used in previous Arizona rate cases	No	1	11
RUCO 2-75	Revenue Lag - Prepayments for Management Fees to Affiliated Service Company (without attachments)	No	1	12
RUCO 2-76 - Revised	Prepayments to Affiliated Service Company - Service Agreement	No	15	13 - 27
RUCO 2-48	Anthem Water Pro Forma Annualization	No	1	28
RUCO 2-40	Supporting Documentation of AAWC's request for an increase in rate case expense in comparison with Docket No. E-01303A-08-0227 (without voluminous attachments)	No	2	29 - 30
RUCO 2-78	Amounts of rate case expense allowed by the Commission in previous AAWC rate cases	No	7	31 - 37
RUCO 2-6	Copy of incentive compensation plan for the test year	No	21	38 - 58
RUCO 3-2	Incentive compensation expense for the test year	No	1	59
RUCO 6-1	Test year Incentive compensation expense in the current filing	No	2	60 - 61
RUCO 2-25	Stock-based compensation expense	No	1	62
RUCO 6-3	Service Company and AAWC non-affiliate portions of Stock-based compensation expense	No	2	63 - 64
RUCO 2-52	Reconciliation of Pension expense - Excerpts of 2009 pension actuarial report	No	17	65 - 81
RUCO 2-95	2009 return on pension plan assets	No	4	82 - 85
RUCO 2-60	Actual Pension expense for years 2006 - 2008	No	2	86 - 87
RUCO 2-43	Donations, Membership dues, Advertising, and Miscellaneous expense; removal of Business Development expense	No	7	88 - 94
RUCO 2-91	Actual Tank-painting expense for 10-year period through 2009 (without attachments)	No	2	95 - 96
RUCO 4-1	O&M Management Fees for the 2008 test year	No	3	97 - 99
RUCO 4-3	Management Fees - Affiliate incentive compensation, pension, and OPEB expense, Business Development expenses	No	4	100 - 103
RUCO 4-5	Management Fees - Affiliate pension and OPEB expense	No	4	104 - 107
RUCO 2-59	Management Fees - Affiliate OPEB expense (without voluminous attachments)	No	3	108 - 110
RUCO 2-61	Management Fees - Affiliate OPEB expense (Attachment RUCO 2-61 AZAWC Service Co Charges-Updated thru Dec 2009 included)	No	11	111 - 121
Total Pages Including this Page			121	

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Linda Gutowski  
**Title:** Senior Rate Analyst

**Address:** 19820 N. 7<sup>th</sup> Street, Suite 201  
Phoenix, AZ 85024

**Company Response Number:** STF 7.3

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**Agua Fria Wastewater District**

**Q:** Two 75-HP final effluent pumps in Verrado WWTP were retired since 2007. According to Schedule B-2 (referenced to workpaper SLM-1 page 4, Witness Sandra Murrey), \$3,355 were removed from the plant addition/retirement sheet under the pumping equipment account (Object Account #101000, Subject Account #371100). Please confirm if the \$3,355 is for the two pumps. If not, please state the original costs for the two pumps.

**A:** The \$3,355 is not for the 2 effluent pumps at Verrado. The original cost for the 2 pumps is \$52,636.25 and our Engineering Department has been notified that a retirement work order should be created to retire the pumps as soon as possible.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-74

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- Q: For each AzAWC rate area please provide the following information:
- a. A copy of a sample billing for each type of customer.
  - b. Does the billing state when the bill is due? If not, explain fully why not.
  - c. When is the bill due for each type of customer?
  - d. How does the Company determine what "due date" to show on customer billings?
  - e. Are customers subject to any late charge if the bill payment is not received by the due date printed on the bill? If not, explain fully why not. If so, please identify the amount (or percentage) of late charge, and describe when it begins to apply.
  - f. Do AzAWC customers, on average, pay their bills by the due date printed on the bill? If not, explain fully why not.
  - g. What amount of Late Charge revenue has AzAWC reflected in the test year for each rate area? Please break out between residential and commercial if possible.
  - h. What number of residential and commercial customers did AzAWC use for the test year by rate area?
  - i. How many late payments per average customer does the Late Charge revenue projected by AzAWC for the test year represent? Please respond for each rate area, if different.
  - j. Please provide an aging of accounts receivable by rate area, for each month of 2007, 2008 and 2009.
  - k. Please provide the average daily amount of (1) Accounts Receivable and (2) Allowance for Doubtful Accounts for each rate area for 2008.
- A: a. Customer bills are confidential and will be provided subject to the Confidentiality Agreement between the Company and RUCO.
- b. Yes.

- c. Due dates are 20 days after the billing date and it does not differ by type of customer.
- d. It is 20 days after the bill date. Since we bill on Mondays through Fridays only, the due date is on Mondays through Fridays 4 weeks later.
- e. Customers are subject to a 1-1/2% late charge. It begins by being posted to the account on day 21.
- f. Yes.
- g. Late Charge Revenue reflects actual experience for the test year. No change in level of Late Charge Revenue is included in the adjusted test year figures. The breakdown between residential and commercial Late Charge Revenue is not available.

	403101	Oth Rev-Forfeited Discou
Anthem Water		\$25,193
Sun City Water		\$10,368

Water and Sewer Late Charges are booked to the Water District. The amounts subject to late charges include Water Charges, Sewer Charges, Other Charges and Fixed Charges. Other Charges are items such as Establishment Fees or Reconnect Fees. Fixed Charges are fire services.

- h. Please see Schedule H-2 for the average customers by Rate Schedule, and see the specific tab for the rate schedule in the H Schedules for the total number of bills in the test year by rate schedule.
- i. Unadjusted actual experience during the test year was used in the Company's filing. Please see the attachment, RUCO 2-74i Late Payments.xls.
- j. The aging reports are deleted from the system after a short period of time. We are investigating what is required to to restore the aging reports by district. The reports are available for the Company as a whole, but not at the district specific level of detail. If the Company as a whole would suffice, please let the me know.
- k. Please see the lead/lag study for the average daily balance of accounts receivable for each district. The Provision for the Allowance for Doubtful Accounts is booked once each month to the Corporate account. See the attachment RUCO 2-74k Allow Dbtfl Accts.xls for the average daily balance.

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Daily Aging Summary-September 2009

Response to Data Request No. RUCO 2-74 (i)

Daily Aging Summary											
Period End: 200909											
	District	Code	Utility	Code	Aging 0-30	Aging 31-60	Aging 61-90	Aging 91-120	Aging 121-180	Aging 180+	Total Balance
					(73,639.77)	-	-	-	-	-	(73,639.77)
Agua Fria	2340	D			(3,795.88)	-	-	-	-	-	(3,795.88)
Sun City	2341	D			(3,106.73)	-	-	-	-	-	(3,106.73)
Sun City West	2342	D			-	-	-	-	-	-	-
Anthem	2360	D			(24,434.02)	-	-	-	-	-	(24,434.02)
Anthem	2361	D			(36,813.13)	-	-	-	-	-	(36,813.13)
Agua Fria	2340	O			8,046.62	2,606.99	1,469.43	694.98	426.75	-	(23,588.36)
Sun City	2341	O			1,263.03	363.89	397.27	35.60	50.80	-	(43,048.18)
Sun City West	2342	O			327.93	32.91	64.79	-	-	-	(190,239.90)
Anthem	2360	O			(18.28)	-	-	-	-	-	(18.28)
Anthem	2361	O			(5,222.75)	4,450.60	1,284.96	492.11	69.89	-	3,319.97
Agua Fria WW	2340	S			158,452.98	13,063.93	3,912.42	609.55	289.51	-	179,689.91
Sun City WW	2341	S			130,357.72	5,421.88	2,024.15	846.34	490.27	163.71	139,304.07
Sun City West WW	2342	S			313,771.63	5,729.57	1,986.18	397.91	412.93	2,613.36	324,911.58
Anthem WW	2360	S			205.52	-	-	-	-	-	205.52
Anthem WW	2361	S			370,564.46	109,007.77	67,202.52	67,748.32	97,542.23	351,851.64	1,063,916.94
Sun City Water	2341	W			291,382.48	39,799.61	27,305.14	111,630.37	649.17	4,253.22	475,019.99
Anthem Water	2360	W			100,329.41	-	-	-	-	-	100,329.41
Anthem Water	2361	W			402,389.89	44,375.17	14,264.71	10,385.20	12,069.42	58,566.25	542,050.64
					1,384,599.23	231,486.11	120,983.87	198,546.31	112,986.26	418,285.13	2,466,896.91
											(129,789.87)
											2,337,107.04

Total Adjustment Amount

Unbilled Misc Charge

Total Balance

Aging 180+

Aging 121-180

Aging 91-120

Aging 61-90

Aging 31-60

Aging 0-30

Utility Code

District Code

Period End: 200909

ARIZONA PUBLIC SERVICE COMPANY  
CASH WORKING CAPITAL REQUIRED FOR OPERATING EXPENSES - LEAD LAG STUDY  
TWELVE MONTHS ENDED DECEMBER 31, 2007

LINE	DESCRIPTION	ORIGINAL AMOUNT (1)	PRO FORMA (2)	APPLIED AMOUNT (3)	REVENUE LAG DAYS (4)	EXPENSE LAG DAYS (5)	NET LAG DAYS (6)	CWC FACTOR (7)	WORKING CAPITAL REQUIREMENT (8)
1	FUEL FOR ELECTRIC GENERATION:								
2	COAL	221,310,726		221,310,726	38.17076	34.94111	3.22965	0.00885	1,958,600
3	NATURAL GAS	462,349,260		462,349,260	38.17076	43.80915	-5.63839	-0.01545	(7,143,296)
4	GAS MTM AND FUTURES	23,389,836		23,389,836	0.00000	0.00000	0.00000	0.00000	0
5	HANDLING	5,043,000		5,043,000	38.17076	14.48095	23.68981	0.06490	327,291
6	FUEL OIL	902,574		902,574	38.17076	23.94757	14.22319	0.03897	35,173
7	NUCLEAR:								
8	AMORTIZATION	37,872,125		37,872,125	0.00000	0.00000	0.00000	0.00000	0
9	SPENT FUEL	12,522,328		12,522,328	38.17076	76.29351	-38.12275	-0.10445	(1,307,957)
10	TOTAL NUCLEAR FUEL	50,394,453	0	50,394,453					(1,307,957)
11									
12	TOTAL FUEL	763,389,848	0	763,389,848					(6,130,189)
13									
14	PURCHASED POWER	282,572,972		282,572,972	38.17076	36.84700	1.32376	0.00363	1,025,740
15	POWER MTM	-34,736,004		(34,736,004)	0.00000	0.00000	0.00000	0.00000	0
16	POWER SUPPLY ADJUSTER	110,668,577		110,668,577	0.00000	0.00000	0.00000	0.00000	0
17	TRANSMISSION BY OTHERS	29,496,669		29,496,669	38.17076	38.08435	0.08641	0.00024	7,079
18	TOTAL PURCHASED POWER & TRANSMISSION	388,002,213	0	388,002,213					1,032,819
19									
20	TOTAL FUEL AND PURCHASED POWER	1,151,392,061	0	1,151,392,061					(5,097,370)
21									
22	OTHER OPERATIONS & MAINTENANCE:								
23	PAYROLL	287,820,209		287,820,209	38.17076	14.48095	23.68981	0.06490	18,679,532
24	INCENTIVE	25,074,490		25,074,490	38.17076	212.50000	-174.32924	-0.47761	(11,975,827)
25	PENSION AND OPEB	32,520,715		32,520,715	38.17076	55.88928	17.71852	-0.04854	(1,578,555)
26	EMPLOYEE BENEFITS	38,507,056		38,507,056	38.17076	9.62000	28.55076	0.07822	3,012,022
27	PAYROLL TAXES	21,324,598		21,324,598	38.17076	11.77424	26.39652	0.07232	1,542,195
28	MATERIALS & SUPPLIES	72,730,213		72,730,213	38.17076	29.54000	8.63076	0.02365	1,720,070
29	VEHICLE LEASE PAYMENTS	5,268,300		5,268,300	38.17076	10.54665	27.62411	0.07568	398,705
30	RENTS	7,652,343		7,652,343	38.17076	-24.08181	62.25257	0.17055	1,305,107
31	PALO VERDE LEASE	45,785,066		45,785,066	38.17076	110.33117	-72.16041	-0.19770	(9,051,708)
32	PALO VERDE S/L GAIN AMORT	4,575,722		4,575,722	0.00000	0.00000	0.00000	0.00000	0
33	INSURANCE	8,671,658		8,671,658	0.00000	0.00000	0.00000	0.00000	0
34	OTHER	160,146,748		160,146,748	38.17076	34.72000	3.45076	0.00945	1,513,387
35	TOTAL	710,077,118	0	710,077,117					5,564,928
36									
37	DEPRECIATION & AMORTIZATION	370,935,700		370,935,700	0.00000	0.00000	0.00000	0.00000	0
38	AMORT OF ELECTRIC PLT ACQ ADJ	0		-	0.00000	0.00000	0.00000	0.00000	0
39	AMORT OF PROP LOSSES & REG STUDY COSTS	(5,505,458)		(5,505,458)	0.00000	0.00000	0.00000	0.00000	0
40	TOTAL	365,430,242	0	365,430,242					0
41									
42	INCOME TAXES:								
43	CURRENT:								
44	FEDERAL	172,125,000		172,125,000	38.17076	59.05000	-20.87924	-0.05720	(9,845,550)
45	STATE	27,729,000		27,729,000	38.17076	64.92526	-26.75450	-0.07330	(2,032,536)
46	DEFERRED	(44,119,000)		(44,119,000)	0.00000	0.00000	0.00000	0.00000	0
47	TOTAL	155,735,000	0	155,735,000					(11,878,086)
48									
49	OTHER TAXES:								
50	PROPERTY TAXES	127,653,604		127,653,604	38.17076	204.79734	-166.62657	-0.45651	(58,275,147)
51	SALES TAXES	222,899,867		222,899,867	19.83546	40.20833	-20.37287	-0.05582	(12,442,271)
52	FRANCHISE TAXES	44,378,558		44,378,558	19.83546	52.10812	-32.27266	-0.08842	(3,923,952)
53	TOTAL	394,932,029	0	394,932,029					(74,641,370)
54									
55	INTEREST EXPENSE	175,232,969		175,232,969	38.17076	15.25411	-36.14352	-0.09902	(17,351,569)
56									
57	TOTAL	2,952,799,419	0	2,952,799,419					(103,403,467)

TOTBS(1)

B-5(9)

Tucson Electric Power Company  
Cash Working Capital - Lead/Lag Study  
Test Year Ended December 31, 2006  
Based on the Year Ended December 31, 2005  
(Thousands of Dollars)

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
1	Operating Expenses							1
2	Non-Cash Expenses	\$2,490,991						2
3	Bad Debts Expense	82,440,295						3
4	Depreciation	12,587,778						4
	Amortization	(8,038,493)						
	Deferred Income Taxes							
5	Other Operating Expenses	60,948,931	33.79	13.26	20.53	0.0562	\$3,425,218	5
6	Salaries and Wages	3,838,440	33.79	244.32	(210.53)	(0.5768)	(2,214,012)	6
7	Incentive Compensation	257,956,425	33.79	24.10	9.69	0.0265	6,835,845	7
8	Fuel Expense	70,688,694	33.79	35.70	(1.91)	(0.0052)	(367,477)	8
9	Purchased Transmission	4,771,517	33.79	39.50	(5.71)	(0.0156)	(74,436)	9
10	Lease Expense	102,740,975	33.79	95.32	(61.53)	(0.1686)	(17,322,128)	10
11	Remote Generating Plant O&M	31,788,784	33.79	(0.70)	34.49	0.0945	3,004,985	11
12	Office Supplies and Expenses	6,542,004	33.79	5.10	28.69	0.0786	514,202	12
13	Outside Services	6,361,869	33.79	35.90	(2.11)	(0.0056)	(36,899)	13
14	Property Insurance	2,091,138	33.79	7.40	26.39	0.0723	151,189	14
15	Injuries and Damages	3,635,397	33.79	19.70	14.09	0.0386	140,328	15
16	Pensions and Benefits	15,825,396	33.79	11.40	22.39	0.0613	970,097	16
17	Miscellaneous General Expenses	9,259,497	33.79	48.40	(14.61)	(0.0400)	(370,760)	17
18	Rents	660,232	33.79	46.10	(12.31)	(0.0337)	(22,250)	18
19	Property Taxes	30,751,385	33.79	213.78	(179.99)	(0.4931)	(15,163,508)	19
20	Payroll Taxes	5,508,194	33.79	12.91	20.88	0.0572	315,069	20
21	Current Income Taxes	(4,221,970)	33.79	42.30	(8.51)	(0.0233)	98,372	21
22	Other Taxes	179,866	33.79	90.81	(57.02)	(0.1562)	(28,095)	22
23	Interest on Customer Deposits	574,863	33.79	182.50	(148.71)	(0.4074)	(234,199)	23
24	Other Operations and Maintenance	58,358,617	33.79	14.30	19.49	0.0534	3,116,350	24
25	Total Operating Expenses	<u>\$757,738,925</u>						25
26	Other Cash Working Capital Elements:							26
27	Interest On Long-Term Debt	\$43,417,161	33.79	74.60	(40.81)	(0.1118)	(4,854,039)	27
	Revenue Taxes and Assessments	\$59,055,220	33.79	51.75	(17.96)	(0.0492)	(2,905,517)	28
28	Total Cash Working Capital						<u>(\$25,021,687)</u>	

Supporting Schedules  
N/A

Recap Schedules  
B-2, B-3

UNS Gas, Inc.  
Cash Working Capital - Lead/Lag Study  
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Test Year Amount (B)	Revenue Lag Days (C)	Expense Lag Days (D)	Net Lag Days (Col. C - Col. D) (E)	Lead/Lag Factor (Col. E/365) (F)	Cash Working Capital Required (Col. F x Col. B) (G)	Line No.
	(A)							
1	Operating Expenses							1
2	Non-Cash Expenses	\$688,379						2
3	Bad Debts Expense	9,057,437						3
4	Depreciation	(817,432)						4
	Amortization	2,869,418						
	Deferred Income Taxes							
5	Other Operating Expenses	7,750,405	40.70	24.50	16.20	0.0444	\$344,118	5
6	Salaries and Wages	310,278	40.70	287.00	(226.30)	(0.6200)	(192,372)	6
7	Incentive Compensation	87,528,793	40.70	27.89	12.81	0.0351	3,072,261	7
8	Purchased Gas Costs	1,057,383	40.70	20.72	19.98	0.0547	57,839	8
9	Office Supplies and Expenses	508,477	40.70	64.75	(24.05)	(0.0659)	(33,509)	9
10	Injuries and Damages	1,544,121	40.70	54.66	(13.96)	(0.0382)	(58,985)	10
11	Pensions and Benefits	7,079,463	40.70	44.75	(4.05)	(0.0111)	(78,582)	11
12	Support Services - TEP	3,610,079	40.70	213.00	(172.30)	(0.4721)	(1,704,318)	12
13	Property Taxes	560,124	40.70	19.41	21.29	0.0583	32,665	13
14	Payroll Taxes	734,254	40.70	41.42	(0.72)	(0.0020)	(1,469)	14
15	Current Income Taxes	137,200	40.70	182.50	(141.80)	(0.3885)	(53,302)	15
16	Interest on Customer Deposits	6,212,916	40.70	53.10	(12.40)	(0.0340)	(211,239)	16
	Other Operations and Maintenance							
17	Total Operating Expenses	\$128,831,286						17
	Other Cash Working Capital Elements:							
18	Interest On Long-Term Debt	\$5,924,526	40.70	89.50	(48.80)	(0.1337)	(782,109)	18
19	Revenue Taxes and Assessments	\$13,847,423	40.70	50.70	(10.00)	(0.0274)	(379,419)	19
20	Total Cash Working Capital						\$1,568	20

Supporting Schedules  
N/A

Recap Schedules  
B-2, B-3

UNS Electric, Inc.  
Cash Working Capital - Lead/Lag Study  
Test Year Ended December 31, 2008

Line No.	Description	(A)	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
			(B)	(C)	(D)	(E)	(F)	(G)	
1	Operating Expenses								1
2	Non-Cash Expenses		\$764,063						2
3	Bad Debts Expense		17,810,236						3
4	Depreciation		(3,575,014)						4
5	Amortization		3,384,947						5
6	Deferred Income Taxes								6
7	Other Operating Expenses								7
8	Salaries and Wages (UNSE Direct Employees)		4,828,118	35.59	23.33	12.26	0.0336	\$182,225	8
9	Incentive Pay (UNSE Direct Employees)		109,736	35.59	287.00	(231.41)	(0.6340)	(\$68,573)	9
10	Purchased Power		95,598,854	35.59	33.79	1.80	0.0049	\$488,434	10
11	Transmission Other		8,082,997	35.59	40.67	(5.08)	(0.0139)	(\$112,354)	11
12	Meter Reading		839,177	35.59	33.67	1.92	0.0053	\$4,448	12
13	Customer Records & Collection Expenses (excluding allocations)		1,389,213	35.59	34.94	0.85	0.0018	\$2,501	13
14	Office Supplies and Expenses		505,643	35.59	50.89	(15.30)	(0.0419)	(\$21,186)	14
15	Injuries and Damages		309,105	35.59	70.52	(34.93)	(0.0957)	(\$29,581)	15
16	Pensions and Benefits		1,186,579	35.59	51.37	(15.78)	(0.0432)	(\$50,396)	16
17	Support Services - TEP (Direct Labor, Burdens, System Alloc.)		6,217,822	35.59	44.77	(9.18)	(0.0252)	(\$156,688)	17
18	Property Taxes		3,307,989	35.59	213.00	(177.41)	(0.4848)	(\$1,603,548)	18
19	Payroll Taxes		445,648	35.59	19.87	15.72	0.0431	\$19,207	19
20	Current Income Taxes		(1,263,880)	35.59	41.42	(5.83)	(0.0160)	\$20,219	20
21	Interest on Customer Deposits		14,499	35.59	182.50	(148.91)	(0.4025)	(\$5,836)	21
22	Other Operations and Maintenance		10,886,786	35.59	41.21	(5.82)	(0.0154)	(\$169,197)	22
23	Total Operating Expenses		<u>\$150,922,718</u>						23
24	Other Cash Working Capital Elements:								
25	Interest On Long-Term Debt		\$6,716,282	35.59	78.97	(43.38)	(0.1188)	(797,894)	25
26	Revenue Taxes and Assessments		\$12,430,745	35.59	49.43	(13.84)	(0.0379)	(471,125)	26
27	Total Cash Working Capital							<u>(\$2,810,346)</u>	27

Supporting Schedules  
N/ARecap Schedules  
B-2, B-3

UNS Electric, Inc.  
Cash Working Capital - Lead/Lag Study  
Test Year Ended June 30, 2006

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
1	Operating Expenses							1
2	Non-Cash Expenses							2
3	Bad Debts Expense	\$579,538					\$153,601	3
4	Depreciation	15,594,232					(\$82,289)	4
5	Amortization	(3,781,658)					\$518,508	5
6	Deferred Income Taxes	494,521					(\$97,437)	6
7	Other Operating Expenses						\$3,872	7
8	Salaries and Wages (UNSE Direct Employees)	4,571,466	35.59	23.33	12.26	0.0336	\$153,601	8
9	Incentive Pay (UNSE Direct Employees)	98,247	35.59	267.00	(231.41)	(0.6340)	(\$82,289)	9
10	Purchased Power	106,021,950	35.59	33.79	1.80	0.0049	\$518,508	10
11	Transmission Other	7,009,878	35.59	40.67	(5.08)	(0.0139)	(\$97,437)	11
12	Meter Reading	730,556	35.59	33.67	1.92	0.0053	\$3,872	12
13	Customer Records & Collection Expenses (excluding allocations)	2,982,604	35.59	34.94	0.65	0.0018	\$5,369	13
14	Office Supplies and Expenses	535,854	35.59	50.89	(15.30)	(0.0419)	(\$22,452)	14
15	Injuries and Damages	512,417	35.59	70.52	(34.93)	(0.0957)	(\$49,038)	15
16	Pensions and Benefits	1,172,133	35.59	51.37	(15.78)	(0.0432)	(\$50,636)	16
17	Support Services - TEP (Direct Labor, Burdens, System Alloc.)	5,631,155	35.59	44.77	(9.18)	(0.0252)	(\$141,905)	17
18	Property Taxes	3,098,371	35.59	213.00	(177.41)	(0.4848)	(\$1,500,966)	18
19	Payroll Taxes	348,088	35.59	19.87	15.72	0.0431	\$15,003	19
20	Current Income Taxes	1,342,818	35.59	41.42	(5.83)	(0.0160)	(\$21,485)	20
21	Interest on Customer Deposits	217,482	35.59	182.50	(146.91)	(0.4025)	(\$87,540)	21
22	Other Operations and Maintenance	2,587,216	35.59	41.21	(5.62)	(0.0154)	(\$39,843)	22
23	Total Operating Expenses	<u>\$149,744,879</u>					<u>(\$2,634,713)</u>	23
24	Other Cash Working Capital Elements:							
25	Interest On Long-Term Debt	\$5,819,157	35.59	90.22	(54.63)	(0.1497)	(871,126)	24
26	Revenue Taxes and Assessments	\$13,983,561	35.59	45.71	(10.12)	(0.0277)	(387,345)	25
27	Total Cash Working Capital						<u>(\$2,634,713)</u>	26

Supporting Schedules  
N/A

Recap Schedules  
B-2, B-3

**SCHEDULE B-5**  
**Sheet 2 of 4**

**SOUTHWEST GAS CORPORATION**  
**ARIZONA**  
**LEAD-LAG STUDY**  
**FOR THE TWELVE MONTHS ENDED APRIL 30, 2007**

Line No.	Description [1] (a)	Cost (b)	Lag Days (c)	Dollar Days (d)	Line No.
1	Cost of Gas [2]	\$ 540,064,385	42.30	22,842,405,297	1
2	Labor Cost	117,038,570	12.33	1,443,650,156	2
3	Provision for Uncollected Accounts	2,977,729	120.00	357,327,523	3
4	Other O & M Expenses	54,826,860	8.40	460,689,209	4
5	Total O & M Expenses	\$ 714,907,545	35.12	25,104,072,186	5
6	Interest	48,035,008	84.65	4,066,302,142	6
7	Taxes Other Than Income Taxes	33,124,880	185.34	6,139,365,177	7
8	Income Taxes-Current	21,699,571	37.00	802,884,115	8
9	Total Operating Expenses	\$ 817,767,003	44.16	36,112,623,619	9
10	Number of Days in Test Period	365			10
11	Average Daily Operating Expense	\$ 2,240,458			11
12	Lag in Receipt of Revenue		39.53		12
13	Net Difference Revenue-Expense Lag	(4.63)			13
14	Cash Working Capital	\$ (10,379,937)			14
		B-5, Sh 1			

[1] Supporting Workpapers B-5.

[2] Gas costs adjusted for present volumes and rates to synchronize with gas cost adjustment.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Linda Gutowski  
**Title:** Senior Rate Analyst

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-75

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**Q:** Does AzAWC pre-pay the affiliated Service Company for services provided by the Service Company?

- a. If not, explain fully why not. If so, please identify the basis for such prepayment and identify and provide a copy of all documents relied upon.
- b. Please identify for how many days, on average, the Service Company has the use of AzAWC payments before the Service Company remits funds to the ultimate payees. Include supporting calculations.

**A:** Yes.

- a. Arizona American pays an estimate for the current month (based on the actual for the prior month) plus a true up between what was paid as an estimate in the prior month and the actual for the prior month. The payment is done on the first Monday of the current month. So, there are 2 parts to each payment – a large part that is a prepayment for the current month paid on the first Monday of the month and a true up to last month's estimate, paid on the same date.
- b. There is a lead of (11.25) days on average. Please see the revised Management Fees lead/lag study. This revision will change the Cash Working Capital by adding the following amounts:

Anthem Water	\$ 82,573
Sun City Water	\$107,618
Anthem / Agua Fria	\$108,950
Sun City Wastewater	\$ 66,536
Sun City West WW	\$ 56,300

See the attached files RUCO 2-75 Mgmt Fee Rvsd Lead Lag.xls and RUCO 2-75 serv co bills 2008.pdf.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-76

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**Q:** Has the Commission approved any agreement between AzAWC and the affiliated Service Company? If not, explain fully why not. If so, please identify and provide a complete copy of such agreement. Include all amendments and changes thereto since AzAWC's last rate case.

- a. Please identify and describe in detail all steps that would be needed for the Commission to modify the payment terms of the Service Company Service Agreement.
- b. Provide all Documents relied upon for your response.

**A:** Prior approval of an affiliate arrangement is not required in Arizona. The Company has searched the Commission's decisions listing and has not been able to locate a case decision in which either the Company requested approval of or such approval was granted of the agreement between Arizona American and the Service Company ("Agreement"). We believe neither has occurred, but we are not 100% certain at this time whether or not the ACC has approved the Agreement because the Company was providing utility services in Arizona for many years but only in the Paradise Valley district and readily available decisions for the 1990's are not complete.

The Commission has, however, reviewed and approved the costs incurred in relation to the Service Company bill in numerous recent proceedings.

A copy of the 1989 Service Company Agreement is attached and labeled RUCO 2-76 Service Company Agreement.pdf. The agreement has not been amended since 1989.

- a. This question should be directed at the Commission to answer. The Company has not researched what steps the Commission would need to take to attempt to unilaterally modify the payment terms as this may be outside the scope of the Commission's authority. The Company is strongly opposed to changing the agreement. For all practical purposes, the agreements that are in use in all of the states in which American Water provides regulated utility service are essentially identical and a number of state PUC's have approved the agreement.

- b. The Service Company Agreement was provided herein and various recent Commission decisions are provided in other responses or are available publicly on the Commissions web site.

AGREEMENT

Agreement dated January 1, 1989, between AMERICAN WATER WORKS SERVICE COMPANY, INC., a Delaware corporation (hereinafter "Service Company"), and PARADISE VALLEY WATER COMPANY, a Arizona corporation (hereinafter "Water Company").

The background of this Agreement is that:

1. Both Service Company and Water Company are subsidiaries of American Water Works Company, Inc., a Delaware corporation (hereinafter "American").
2. Water Company has been organized for and is presently engaged in the business of providing potable water as a public utility in the State of Arizona.
3. Service Company maintains an organization whose officers and employees are familiar with all facets of the water utility business, including the development, business and property of Water Company, and are experienced in the efficient management, financing, accounting and operation of water utility properties and the extension and improvement thereof. The officers and employees of Service Company are qualified to aid, assist and advise Water Company in its business operations through the services to be performed under this Agreement.
4. Service Company has provided administrative and operating services to Water Company for many years, the past 17 years pursuant to an agreement dated January 1,

1971. Because Water Company is of the opinion that it cannot obtain the same quality and diversification of services on a comparable economic basis elsewhere, it proposes to enter into a new agreement with Service Company more specifically defining the types of services available to it.

5. Service Company has entered or proposes to enter into agreements similar to this agreement with other affiliated water companies (hereinafter collectively "Water Companies").

6. The services to be rendered under this agreement are to be rendered by Service Company to Water Companies at their cost to Service Company, as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, the Water Company and Service Company agree that:

#### ARTICLE 1. PERSONNEL AND SERVICES TO BE PROVIDED

1.1 During the term of this agreement and upon the terms and conditions hereinafter set forth, Service Company shall provide corporate guidance for Water Company. In addition to the guidance provided by the officers and employees of Service Company through the coordination of functional activities for all subsidiaries of American, the officers and employees of Service Company shall furnish and Water Company shall purchase from Service Company, the following services: Accounting, Administration, Communication, Corporate Secretarial, Engineering, Financial, Human Resources,

Information Systems, Operation, Rates and Revenue, Risk Management and Water Quality, together with such other services as Water Company and Service Company may agree; provided, however, that Water Company may perform the service with its own personnel or engage another company or person to provide those services on its behalf. Service Company by mutual consent may engage another Company or person to provide such services on its behalf.

1.2 Service Company shall employ qualified officers and employees and those persons shall be available for election by Water Company to serve as officers of Water Company.

1.3 Without limitation, services to be provided by the Service Company shall be rendered as follows:

A. Accounting: Service Company shall assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulations of governmental authorities having jurisdiction and review Water Company's monthly financial reports, annual reports and other reports to stockholders and to any governmental authorities. It shall advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. Service Company shall maintain accounting records as required by Water Company. When appropriate, Service Company shall cooperate and consult with Water Company's independent certified public accountants.

Service Company shall assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Service Company shall prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by Water Company.

B. Administration: Service Company shall make qualified employees available to perform or assist in the performance of Water Company's corporate activities. Those employees shall keep themselves informed on all aspects of Water Company's operations and shall regularly visit Water Company's facilities. They shall make recommendations to Water Company for operating expenditures and for additions to and improvements of property, plant and equipment. They shall keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Water Company; and advise Water Company of any such developments and conditions to the extent that they may be important to Water Company. Service Company shall provide an internal audit staff for periodic audits of accounts, records, policies and procedures of Water Company and submit reports thereon.

C. Communications: Service Company shall recommend procedures to promote satisfactory relations with employees, customers, communities and the general public and assist in the preparation of communication materials, (including press releases, brochures, audio visual presentations and speeches) plant tours,

public exhibits and displays and other related services to inform the public.

D. Corporate Secretarial: Service Company shall maintain, in such places and manner as may be required by applicable law, documents of Water Company, such as minute books, charters, by-laws, contracts, deeds and other corporate records, and shall administer an orderly program of records retention. It shall maintain, or arrange for the maintenance of, records of stockholders of Water Company, prepare or arrange for the preparation of stock certificates, perform duties relating to the transfer of stock and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Service Company shall review and may assist in the preparation of documents and reports required by Water Company such as deeds, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings.

E. Engineering: Service Company shall advise, and provide engineering services to assist Water Company in planning for, operating, maintaining and constructing its facilities.

It shall conduct distribution system surveys and hydraulic analyses and prepare or review maps, charts, operating statistics, reports and other pertinent data.

It shall assist Water Company in the proper maintenance and protection of Water Company properties by periodic inspection of its structures, tanks, reservoirs, dams, wells and electrical and mechanical equipment.

obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Water Company's source of supply, treatment plant, pumping stations, distribution system, and such other facilities as Water Company may request. Service Company shall provide a Materials Management Program to arrange for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Water Company and assist in the evaluation of new and existing products and application procedures.

**F. Financial:** Service Company shall assist in the development and implementation of financing programs for Water Company, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; advise concerning arrangements for the sale of its securities; and assist in the preparation of necessary papers, documents, registration statements, prospectuses, petitions, applications and declarations. It shall prepare reports to be filed with, and reply to inquiries made by, security holders and bond and mortgage trustees.

Service Company shall assist Water Company in cash management including arrangements for bank credit lines, establishment of collection policies, and development of temporary investment programs.

Service Company shall provide assistance to Water Company in the preparation of all financial reports.

G. Human Resources: Service Company shall assist in obtaining qualified personnel for Water Company; in establishing appropriate rates of pay for those employees; and in negotiating with bargaining units representing Water Company employees. It shall carry out training programs for the development of personnel and advise and assist Water Company regarding personnel. It shall also advise and assist Water Company in regard to group employee insurance, pension and benefit plans and in the drafting or revising of those plans when required. It will keep Water Company apprised of all employment laws and develop procedures and controls to assure compliance.

H. Information Systems: Service Company shall make available to Water Company electronic data processing services. Those services shall include customer billing and accounting, preparation of financial statements and other reports including those required by Federal and State agencies.

I. Operation: Service Company shall develop and assist in the implementation of operating procedures to promote the efficient and economic operation of Water Company. Periodic operational reviews will be performed by Service Company personnel and any deviations from adopted procedures will be reported to Water Company.

J. Rates and Revenue: Service Company personnel shall make recommendations for changes in rates, rules and regulations and shall assist Water Company in the conduct of proceedings before, and in its compliance with the rulings of, regulatory bodies having jurisdiction over its operation. These personnel

shall keep abreast of economic and regulatory developments and conditions that may affect Water Company; and advise Water Company of any such developments and conditions to the extent that they may be important to Water Company. Rates and Revenue personnel shall assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by the Water Company and their respective regulatory commissions. Service Company shall also provide qualified personnel to testify on Water Company's behalf as required during any regulatory proceedings.

K. Risk Management: Service Company shall provide a Risk Management Program to review the exposures to accidental loss of the Water Company, recommend efficient methods of protection either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. It shall also supervise investigation procedures; review claims; and negotiate and assist in, and evaluate proposals for, settlement at the request of Water Company. It shall assist in the establishment of safety and security programs to avoid or minimize risk and loss.

L. Water Quality: Service Company shall assist Water Company to comply with standards of governmental agencies and establish and attain water quality objectives of the Water Company. It shall assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing

technical assistance and general direction for Water Company personnel.

It shall also provide laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Water Company.

## ARTICLE II. PAYMENT FOR SERVICES

2.1 In consideration for the services to be rendered by Service Company as hereinabove provided, Water Company agrees to pay to Service Company the cost thereof determined as provided in this Article II and in Article III.

2.2 All costs of service rendered by Service Company personnel for Water Company or in common with other Water Companies shall be charged to Water Company based on actual time spent by those personnel as reflected in their daily time sheets or other mutually acceptable means of determination.

2.3 All costs of Service Company incurred in connection with services rendered by Service Company which can be identified and related exclusively to Water Company, shall be charged directly to Water Company.

2.4 All costs incurred in rendering services to Water Company in common with similar services to other Water Companies which cannot be identified and related exclusively to services rendered to a particular Water Company, shall be allocated among all Water Companies so served, or, in the case of costs incurred with respect to services rendered to a particular group of Water

Companies, among the members of such group, based on the number of customers served at the immediately preceding calendar year end.

2.5 Cost for support personnel (secretaries, clerical personnel, clerks, messengers, telephone operators, mail clerks, and other incidental support personnel of the Service Company) as well as the cost of lease payments, depreciation, utilities and other costs associated with leasing office space and equipment by Service Company shall be allocated among the Water Companies on the basis of the proportion of the aggregate cost allocated under Sections 2.3 and 2.4.

### ARTICLE III. ALLOWANCE FOR OVERHEAD

3.1 In determining the cost to be assessed by Service Company for the rendering of services to Water Company as herein provided, there shall be added to the salaries of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the general overhead of Service Company, as defined below, properly allocable thereto. Such percentage shall be calculated each month and shall be the ratio of the total general overhead of the Service Company for the month to the total salaries of the employees for whose service charges are to be made to the Water Companies. No general overhead of Service Company shall be added to costs incurred for services of non-affiliated consultants employed by Service Company.

3.2 The term "general overhead" shall include:

- (a) pension and insurance premiums paid for the benefit of Service Company employees,

- (b) legal and other fees for services rendered to the Service Company,
- (c) taxes,
- (d) other general office supplies and other similar expenses, and
- (e) interest on working capital.

**ARTICLE IV. BILLING PROCEDURES AND BOOKS AND RECORDS**

4.1 As soon as practicable after the last day of each month, Service Company shall render a bill to Water Company for all amounts due from Water Company for services and expenses for such month plus an amount equal to the estimated cost of such services and expenses for the current month, all computed pursuant to Articles II and III. Such bill shall be in sufficient detail to show separately the charge for each class of service rendered. All amounts so billed shall reflect the credit for payments made on the estimated portion of the prior bill and shall be paid by Water Company within a reasonable time after receipt of the bill therefore.

4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company.

4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company

hereunder, the costs thereof, and the allocation of such costs among Water Companies.

**ARTICLE V. OTHER AGREEMENTS**

5.1 It is understood by Water Company that Service Company has entered or may enter into similar agreements with other Water Companies that are affiliated with American to which similar services are to be furnished. Service Company will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

5.2 It is understood by Water Company that Service Company has entered or may enter into an agreement or agreements with American and certain other companies not engaged in the water or sewer service business to which limited services are to be furnished; Water Company consents to such additional agreements, provided, however, that no part of the cost of furnishing such services will be charged to Water Company.

**ARTICLE VI. TERM OF AGREEMENT**

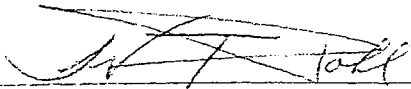
This agreement shall become effective as of the later of (a) the date first mentioned above or (b) the date the parties receive the last of any necessary approvals of governmental regulatory agencies having jurisdiction in the premises. Upon becoming effective, this agreement shall be the sole agreement between the parties concerning the subject matter hereof and shall supersede all prior agreements, written or oral, including the agreement dated January 1, 1971, which shall terminate on the date this

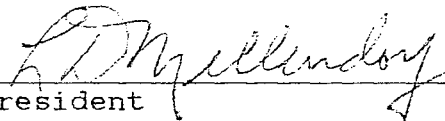
agreement becomes effective. This agreement shall continue in full force and effect until terminated by either of the parties hereto giving the other party hereto ninety day's notice in writing; provided, however, that this agreement shall terminate as of the date Water Company or Service Company ceases to be an affiliate of American.

IN WITNESS WHEREOF, Service Company and Water Company have caused this agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and impressed with their respective corporate seals attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

ATTEST:

AMERICAN WATER WORKS SERVICE  
COMPANY, INC.

  
\_\_\_\_\_

By   
\_\_\_\_\_  
President

ATTEST:

PARADISE VALLEY WATER COMPANY

  
\_\_\_\_\_

By   
\_\_\_\_\_  
President

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-48

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**Q:** Filing Information. As the Company discovers errors in its filing, identify such errors and provide documentation to support any changes. Please update this response as additional information becomes available.

**A:** As the Company or another party discovers errors and points them out, the Company admits to such errors in discovery responses as well as automatically incorporates them into its revised revenue requirement submitted as part of its rebuttal testimony.

Rodney Moore of RUCO found errors in the calculation of the pro forma adjustment for customer annualization for Anthem Water and he can easily provide the corrections to RUCO's consultant. The corrections have been incorporated in the Company's draft rebuttal schedules which will be submitted along with the Company's rebuttal testimony. (We anticipate accepting RUCO's corrections when their witness causes them to be included in RUCO's direct case presentation currently scheduled for February 22, 2010).

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-40

Page 1 of 2

**Q:** Rate Case Expense.

- a. Please provide supporting documentation (e.g. invoices, quotes, etc.) for each of the rate case expenses that totals the amount being requested by the Company for the current rate case.
- b. Please identify the test year and filing data in the Company's last five rate cases.
- c. Please provide the level of rate case expense incurred for the last five rate cases broken down by payee or type of activity.
- d. Please explain fully and in detail why the Company normalized rate case expense over two years versus some other period.

**A:**

- a. Exhibit TMB-2 requests \$678,425 in rate case expenses based on a budget prepared by Mr. Broderick formulated relying on his knowledge of a number of recent Arizona American rate cases and based on recent conversations with external witnesses and counsel regarding the likely level of effort for this case. To-date, \$152,545.44 has been spent and accumulated in a deferred account. (Please note Mr. Broderick has not yet reviewed the recorded rate case expenses to-date for completeness.) As regards invoices for legal expenses, please see response to RUCO 2-57. As regards non-legal (e.g., consultant invoices) to-date, please find attached invoices already received and paid. Overall, to-date, expenses are running slightly under budget because the initial required public notice was sent as a bill insert and not as a separately mailed letter. However, legal expenses are expected to later be over budget. The Company always updates its rate case expense budget later in the case, usually at hearing, for actual to-date and remaining cost estimates.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY

**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-40

Page 2 of 2

- b. The test year and filing dates since Arizona American has owned the districts that are the subject of this proceeding are summarized below.

<u>District</u>	<u>Filing Date</u>	<u>Test Year</u>	<u>Filing Date</u>	<u>Test Year</u>
Sun City Water	4/2/07	2006	11/22/02 & 12/13/02	2001
Sun City Wastewater	7/28/06	2005	11/22/02 & 12/13/02	2001
Sun City West Wastewater	7/28/06	2005	11/22/02 & 12/13/02	2001
Anthem Water	7/16/06	2005	11/22/02 & 12/13/02	2001
Anthem / Agua Fria Wastewater	7/16/06	2005	11/22/02 & 12/13/02	2001

- c. The rate case expenses for the last five rate cases except for the 2008 AZ Rate Case (Docket 08-0227) are attached as "RUCO 2-40 (Docket 06-0403)-AN-AF\_WW.pdf", "RUCO 2-40 (Docket 06-0403)-AN\_W.pdf", "RUCO 2-40 (Docket 07-0209)-SC\_W.pdf", "RUCO 2-40 (Docket 06-0491)-SCW\_WW.pdf", "RUCO 2-40 (Docket 06-0491)-SC\_WW.pdf", "RUCO 2-40 (Docket 06-0014)-MO\_WW.pdf", and "RUCO 2-40 (Docket 06-0014)-MO\_W.pdf". The 2008 Rate Case expenses are being provided in response to data request number RUCO 2-78.
- d. The Company proposes to amortize rate case expense over three years – not two years - based on prior precedent, even though it is well known that the Company has been filing rate cases on a more frequent schedule and has been unfairly forced to write-off unamortized prior case expenses as the Commission has likewise not allowed pancaking of rate case expense.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix 85027

**Company Response Number:** RUCO 2-78

Page 1 of 2

Q: Rate case expense.

- a. Please provide a detailed listing of all consultant fees and legal expense from AzAWC's last rate case.
- b. Please provide the Company's understanding of the amount of rate case expense that was allowed by the Commission in its last three rate cases.
- c. Please state fully AzAWC's understanding of the amount allowed for rate case expense, by component, and the normalization or amortization period applied by the Commission to each such component.
- d. Please identify all other Arizona utility rate cases that AzAWC reviewed for rate case expenses.
- e. Provide all Documents relied upon for your response.

A: Arizona-American object to these requests to the extent they seeks documents or information protected from discovery by the attorney-client privilege, the work-product doctrine, or any other applicable privilege, immunity, or doctrine. Arizona-American further objects to the extent these requests seek a legal conclusion. Subject to and without waiving these objections, Arizona-American responds as follows:

- a. Arizona-American's last rate case was Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227. Attached as "RUCO 2-78a Rate Case Expenses (08-0227).pdf" is a detailed listing of actual rate case expenses through 11/30/09. Since the expenditures exceeded the allowed amount, charges incurred in December 2009 are not reflected.
- b. Decision No. 71410, dated December 8, 2009 allowed \$456,275 in a seven district rate case. Decision No. 70372, dated June 13, 2008 allowed \$300,000 in a three district ~~rate~~ case. Decision No. 70351, dated May 16, 2008 allowed \$94,264 in a one district rate case.
- c. This sub-part is not clear, but is interpreted to seek more information regarding sub-part b. The amortization period for Decisions 71410 and 70372 was three years and Decision 70351 was four years. The Commission authorized a total rate case expense recovery and did not specify in the order the sub-part component authorizations.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix 85027

**Company Response Number:** RUCO 2-78

Page 2 of 2

- d. None. Arizona-American does not base its rate case expense requests on any other Arizona utility.
- e. Decisions 71410, 70372 and 70372 were relied upon in this response and are available including from the Commission's edocket function.

[illegible]

Account Ledger Print									
09200P	Account	230105.182000	Deferred Rate Proceedings	Batch	Subl/MO#	Debit	Credit	Date - 1/18/10	
DT Document	Date	Explanation						Page - 2	
CC	5725	03/12/09	COURTNEY L APPELHANS	Batch Date 03/12/09				From Date/Per 01/01/09	
			LIS DOON VARNA	4344816 42549400 W		54.17		Thru Date/Per 11/30/09	
PV	42165421	03/16/09	SHERYL L HUBBARD	Batch Date 03/12/09				Ledger Type. AA	
			Gannett Fleming Companies	4355556 42549400 W		1,637.50		Sub Ledger/Ty 42549400 W	
			INV# 049330 901	Batch Date 03/16/09				Currency Code	
PV	42167294	03/17/09	Gannett Fleming Companies	4364602 42549400 W		6,287.50		P	
			INV# 0493309025	Batch Date 03/17/09				User ID ZACCARLM	
PV	42167295	03/17/09	Brattle Group	4364602 42549400 W		22,946.23		P	
			INV# 015373	Batch Date 03/17/09				User ID ZACCARLM	
PV	42172324	03/25/09	Bob Nelson Associates Inc	4349653 42549400 W		275.00		P	
			INV# 202106	Batch Date 03/25/09				Invoice 015373	
PV	42172349	03/25/09	Bob Nelson Associates Inc	4349653 42549400 W		187.50		P	
			INV# 202115	Batch Date 03/25/09				Invoice 202106	
PV	42172351	03/25/09	Bob Nelson Associates Inc	4349653 42549400 W		6,538.81		P	
			INV# 202111	Batch Date 03/25/09				Invoice 202115	
JE	230329	03/31/09	RECLS RATE CASH EXP TO 182000	4359640 42549400 W		2,499.74		P	
			RECLS RC EXP	Batch Date 04/07/09				Invoice 202111	
PV	42181266	03/31/09	Marks, Craig A PLC	4352642 42549400 W		14,832.00		P	
			INV# 442	Batch Date 03/31/09				User ID PETERMMT	
PV	42181304	03/31/09	Lewis & Roca LLP	4352642 42549400 W		1,013.50		P	
			INV# 877141	Batch Date 03/31/09				Invoice 442	
PV	42182313	03/31/09	Marks, Craig A PLC	4353048 42549400 W		36.00		P	
			INV# 420	Batch Date 03/31/09				Invoice 877141	
PV	42189074	04/09/09	GDS Associates Inc	4360457 42549400 W		742.50		P	
			INV# 0071129	Batch Date 04/09/09				Invoice 420A	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		20.60		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID SCHAFCE	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		20.40		Invoice 0071129	
			COURTNEY L APPELHANS	Batch Date 04/16/09				P	
CC	5840	04/16/09	STAPLES BUSINE	4363335 42549400 W		793.54		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	STAPLES BUSINE	4363335 42549400 W		337.83		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		20.20		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		20.60		P	
			BOBBIES CAFE	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	THOMAS M BRODERICK	4363335 42549400 W		20.64		P	
			MOODY'S QUICK	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		26.78		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID ZACCARLM	
CC	5840	04/16/09	MOODY'S QUICK	4363335 42549400 W		26.78		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID ZACCARLM	

## 09200P

Account	230105.182000	Deferred Rate Proceedings
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DT	Document	Date	Explanation	Batch	Subl/WH#	Debit	Credit
CC	5840	04/16/09	TUBAC DELI & COFFEE CO	4363335	42549400 W	14.05	
			THOMAS M BRODERICK	Batch Date 04/16/09			
CC	5840	04/16/09	THE PRY BREAD HOUSE	4363335	42549400 W	16.19	
			THOMAS M BRODERICK	Batch Date 04/16/09			
CC	5840	04/16/09	THE BREADPUIT	4363335	42549400 W	40.66	
			THOMAS M BRODERICK	Batch Date 04/16/09			
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	18.82	
			COURTNEY L APPELLANS	Batch Date 04/16/09			
CC	5840	04/16/09	MY FLORIST CAFE/MILLO GR	4363335	42549400 W	40.16	
			THOMAS M BRODERICK	Batch Date 04/16/09			
CC	5840	04/16/09	AIELLOS	4363335	42549400 W	51.40	
			THOMAS M BRODERICK	Batch Date 04/16/09			
CC	5884	04/30/09	AQUARIUS RESERVATIONS	4365891	42549400 W	34.87	
			CHRISTOPHER C BULS	Batch Date 04/30/09			
PV	42216842	05/06/09	Brattle Group	4374011	42549400 W	10,836.96	
			CL-02361	Batch Date 05/06/09			
PV	42216943	05/06/09	Gannett Fleming Companies	4374011	42549400 W	11,281.45	
			049330	Batch Date 05/06/09			
PV	42216967	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	210.00	
			372659	Batch Date 05/06/09			
PV	42216969	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	413.50	
			372658	Batch Date 05/06/09			
PV	42216971	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	625.25	
			372657	Batch Date 05/06/09			
PV	42216975	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	663.75	
			372655	Batch Date 05/06/09			
PV	42216977	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	542.75	
			372654	Batch Date 05/06/09			
PV	42216980	05/06/09	AZ Reporting Service Inc	4374011	42549400 W	292.50	
			35834	Batch Date 05/06/09			
PV	42216984	05/06/09	Marika, Craig A PLC	4374011	42549400 W	31,860.00	
			2008 MEGA RATE	Batch Date 05/06/09			
CCC	5908	05/07/09	AQUARIUS RESERVATIONS	4375425	42549400 W	34.87	
			THOMAS M BRODERICK	Batch Date 05/07/09			
PV	42219859	05/11/09	Gannett Ylming Companies	4376591	42549400 W	290.00	
			ACCT # 50031656	Batch Date 05/11/09			
PV	42223138	05/14/09	Bob Nelson Associates Inc	4378193	42549400 W	3,674.78	
			INV# 202136	Batch Date 05/14/09			
JZE	39997	05/20/09	To correct P Card Errors	4380585	42549400 W	35.65	
			SHERYL L HUBBARD	Batch Date 05/20/09			
JZE	39997	05/20/09	To correct P Card Errors	4380585	42549400 W	6.43	
			SHERYL L HUBBARD	Batch Date 05/20/09			



Account Ledger Print									
Date - 1/18/10									
Page 4									
Print Date/Per 01/01/09									
Thru Date/Per 11/30/09									
Ledger Type: NA									
Sub Ledger: 42549400 W									
Currency Code									
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**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-6

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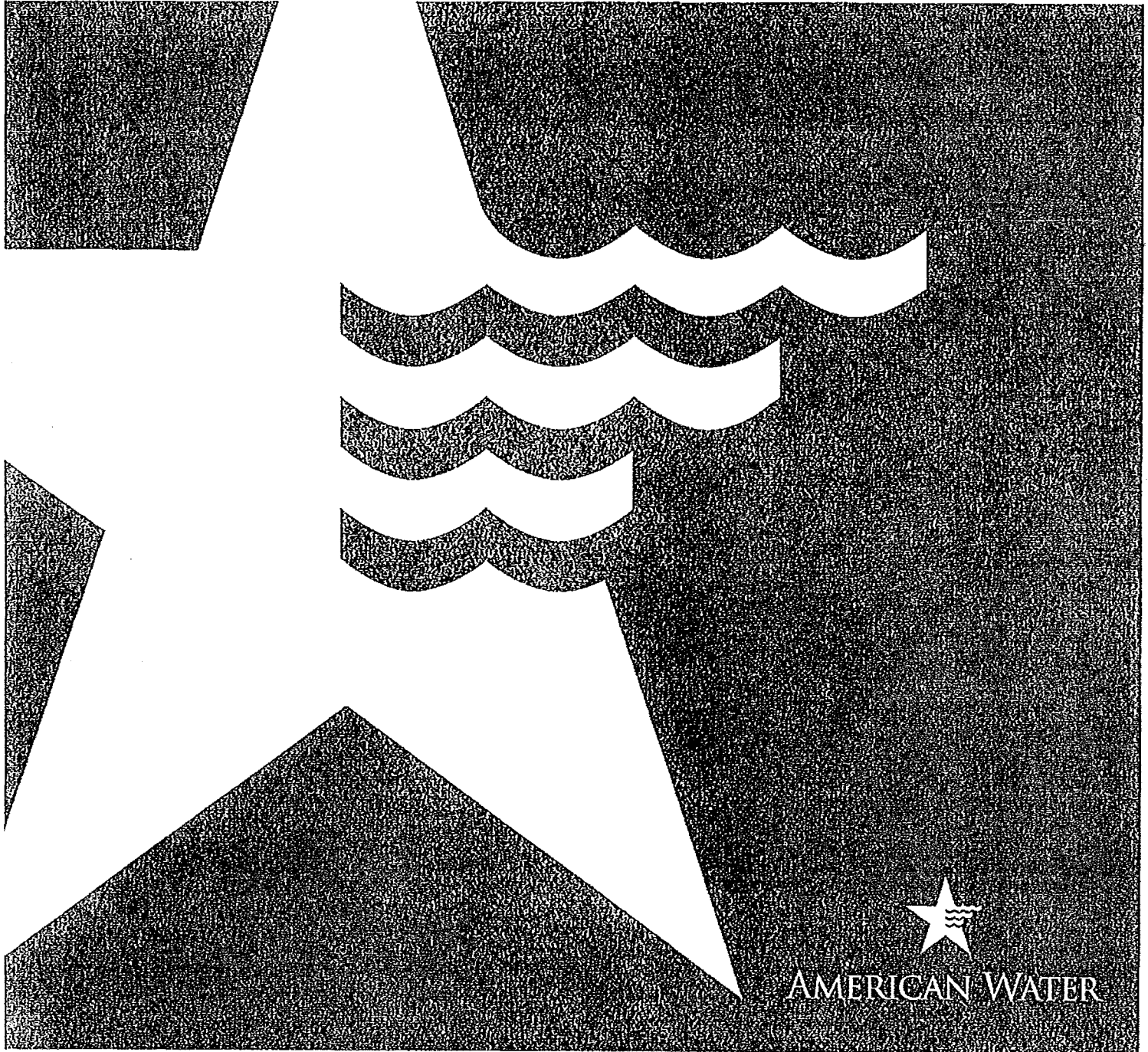
**Q:** Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in the test year cost of service, and all pro forma adjustments.

**A:** Please see the attached 2008 incentive plan brochure labeled RUCO 2-6 AIP 2008 Brochure.pdf. The incentive plan expense included in the test year is listed in the table below. No pro forma adjustments were made to the test year expense.

AIP expense for Arizona American employees recorded to the Arizona Corporate business unit was allocated as follows:

<u>District</u>	<u>Amount</u>
Sun City WW	\$35,906
Sun City West WW	30,382
Anthem / Agua Fria WW	58,795
Sun City Water	58,075
Anthem Water	44,560

# **THE 2008 ANNUAL INCENTIVE PLAN REWARDING ACHIEVEMENT**



## ***2008 American Water Annual Incentive Plan***

The 2008 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our 2008 goals.

### ***Who Is Eligible for the 2008 AIP***

American Water employees eligible to participate in the 2008 AIP include: (a) all full-time management, professional and technical (exempt from overtime) employees; and (b) all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008.

Eligible employees who join American Water on or before September 30<sup>th</sup> of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis. Employees transferred from non-exempt to exempt status on or after September 30<sup>th</sup> are not eligible in the transfer year.

Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award. The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances.

### ***Your Award Opportunity***

All employees eligible for an award will receive written confirmation of their award opportunity from their manager. Awards for all full-time management, professional and technical (exempt from overtime) employees will be based on their salary as of December 31, 2008. Awards for all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008 will be based on their salary as of April 1, 2008.

If you are promoted during the plan year to a position with a higher target level, your bonus plan will be prorated to reflect participation at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your bonus plan will be prorated to reflect your participation at each award level.

### ***What the Plan Measures***

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: 'Financial' (Corporate, Divisional/Regional and State), 'Operational' and 'Individual'.

- The **Financial** component is based on Operating Income. The performance level will be determined at the Corporate and Divisional/Regional/State levels. For 2008, more than 85% of the Operating Income target for the entire Company must be achieved before any payment will be made on the Corporate financial component of the Plan (although a payment could be made on the Divisional/Regional/State financial component if the Divisional/Regional/State operating income exceeds 85% of target). In addition, more than 75% of the Corporate Operating Income target must be achieved before any payment will be made on any component of the Plan for the entire Company (including Divisional/Regional/State financial, operational and individual components).

Operating Income – is defined as earnings before interest, taxes and other non-operating expenses.

See Attachment A for the 2008 Target Level Achievement Schedule.

Your AIP letter will provide you with your Company component targets.

- The **Operational** component is based on the following:

#### Environmental Compliance (NOV)

Environmental Compliance is measured by "Notice of Violation" (NOV) count defined as the number of times an official notice is issued by a primacy agency for failure to comply with a federal, state, or local environmental statute or regulation that is covered under the scope of the American Water Environmental Management Policy.

#### Safety Performance

Safety performance will be measured on an OSHA Total Recordable Incident Rate (ORIR) which is defined as the rate of total injuries requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on total injury reduction which by extension improves Lost Work Day Case Rate (LWCR) and correlates more closely to workers compensation claims and costs. LWCR will remain a personal performance goal for the Operations and Operational Risk Management functions.

#### Customer Satisfaction

Customer Satisfaction is based on the results of the annual Customer Satisfaction Survey (CSS) conducted in the fourth quarter each year through randomly selected customer contacts in each State. This survey will ask our customers "Overall, how satisfied have you been with (Company Name) in general during the past twelve months?" This has a

five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied).

### Service Quality

Service Quality is based on the annual results of the Service Quality Surveys (SQS) conducted throughout the year with customers having had recent contact with an AW Customer Service (CSR) or Field Service (FSR) Representative. This survey will ask the customer, "Overall, how satisfied were you with the outcome of your service contact?" having a five point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), is used to measure performance by evaluating the response percentage total for the top two categories (extremely or very satisfied).

### Service Level

- Percentage of calls answered in the Customer Service Center within a certain timeframe.

### Quality Measures (Shared Services Center - SSC):

- SSC Error Rate - Number of Financial Statements errors (Annual).
- Reconciliations - Calendar Year Average of accounts beyond policy.
- Timeliness of Processes - Annual percentage of processes conducted according to schedule - Tax Filings, Financial Statements available for consolidation, External Audit information submissions, days to image and process invoices, and Orcom rate changes.

### Compliance (Shared Services Center - SSC):

- External Audit Findings - Number of unrecorded differences and topside entries.
  - Internal Audit Findings - Number of instances of deviations from policy/procedures during SOX testing.
  - External Filing Requirements - Annual Reports and Commission Reports completed by established deadlines for SSC.
- The **Individual** component includes Performance Targets as agreed by you and your manager within the companywide standard performance management process.

Your AIP letter will provide you with your Company component targets.

## ***How Your Award Is Weighted***

Your award opportunity is based on two, three or four performance components (see pages 3 and 4), depending on your role. However, you could earn part of your award based on individual, operational and divisional/regional/state financial components if Corporate

Operating Income is more than 75%. If Corporate Operating Income is 75% or less, no award will be paid on any component.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following charts show. The award has a target and a maximum opportunity.

BUSINESS CENTER 2008			
Level	Corporate Financial (30%)	Individual <sup>(1)</sup> (70%)	Target Opportunity
L5 – L6	6.00%	14.00%	20%
L7	4.50%	10.50%	15%
L8 – L9	3.00%	7.00%	10%
*L10 – L14	1.50%	3.50%	5%

- Exempt only

(1) This component is defined as Target Agreement or Performance Targets.

DIVISION/REGION/STATE 2008					
Level	Corporate Financial (30%)	Divisional/ Regional/ State Financial (10%)	Individual <sup>(1)</sup> (30%)	Operational <sup>(2)</sup> (30%)	Target Opportunity
Financial      Individual/ 30%              Operational/ Divisional/ Regional/ State Financial 70%					
L5 – L6	6.00%	2.00%	6.00%	6.00%	20%
L7	4.50%	1.50%	4.50%	4.50%	15%
L8 – L9	3.00%	1.00%	3.00%	3.00%	10%
*L10 – L14	1.50%	0.50%	1.50%	1.50%	5%

- Exempt only

(1) This component is defined as Target Agreement or Performance Targets.

(2) This component is defined by Customer Service Center as: 34% Customer Satisfaction; 33% Service Quality; 33% Service Level.

Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the performance measures, weightings and target maximums that apply to you.

SHARED SERVICES CENTER / CUSTOMER SERVICE CENTER 2008					
Level		Corporate Financial (30%)	Individual <sup>(1)</sup> (35%)	Operational <sup>(2)</sup> (35%)	Target Opportunity
Financial 30%	Individual/ Operational 70%				
L5 – L6		6.00%	7.00%	7.00%	20%
L7		4.50%	5.25%	5.25%	15%
L8 – L9		3.00%	3.50%	3.50%	10%
*L10 – L14		1.50%	1.75%	1.75%	5%

\* Exempt only

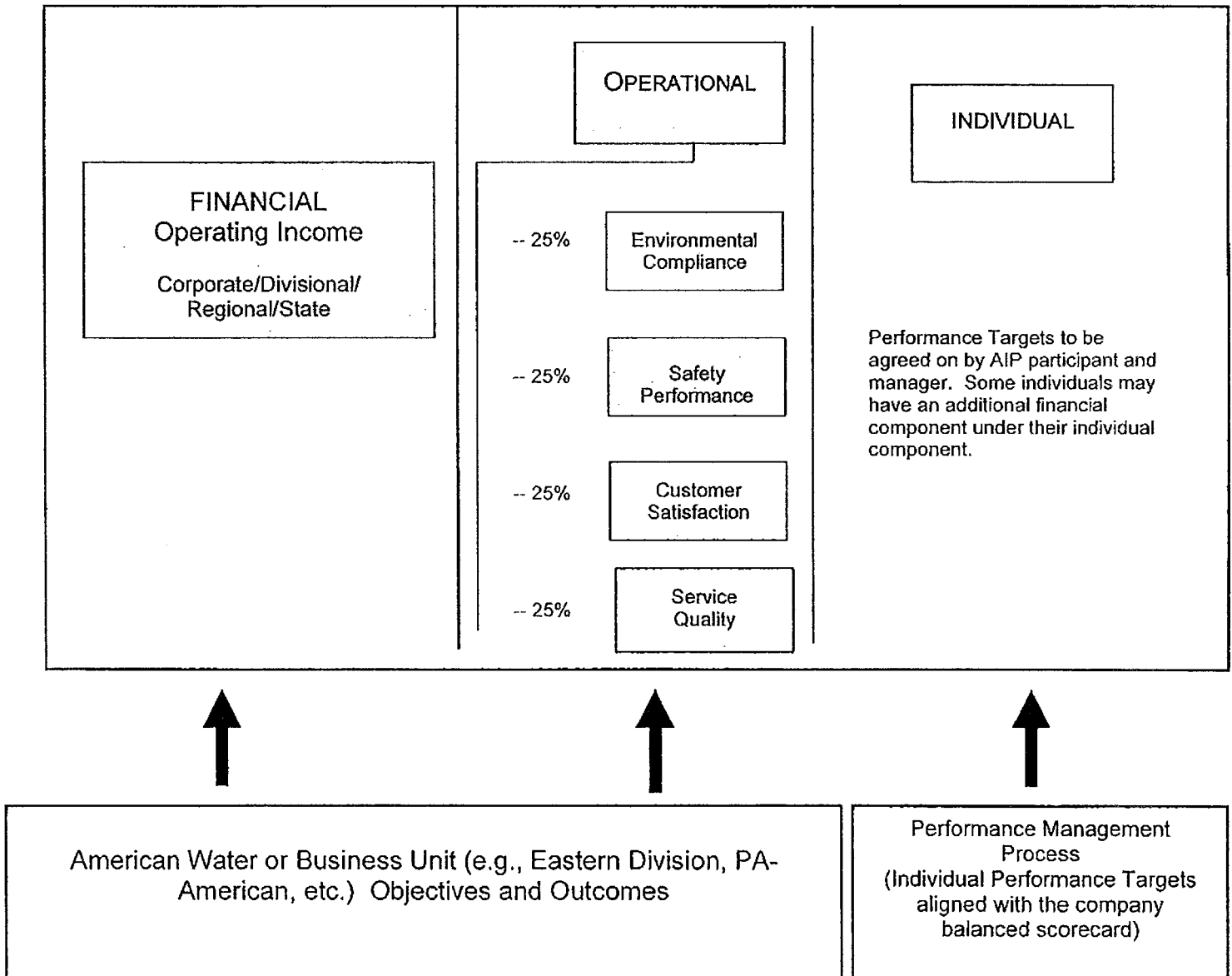
<sup>(1)</sup> This component is defined as Target Agreement or Performance Targets.

<sup>(2)</sup> 50% of the Operational component is allocated to Customer Satisfaction/Customer Service Quality.

## How the Weightings Come Together

Here is an example of how the performance components and their weightings come together. As you can see, the measures within each component are also weighted.

### EXAMPLE



## ***Operational***

Divisional/Regional/State Operational components are performance measures tied to the American Water objectives. Each component percentage is as follows: Service Quality (25%); Environmental Compliance (NOVs) (25%); Safety Performance (25%); Customer Satisfaction (25%); and Shared Services and Customer Service operational components are described in Attachments B & C.

Operational components are evaluated on a range from 0 to 120%.

## ***Performance You Can Impact***

We believe it is essential that you are accountable for, measured on and rewarded for performance that you can directly impact or influence.

You and your manager have agreed on your individual performance targets. These targets should relate back to the performance scorecard for your business unit, division/region/state and should directly reflect your role.

## ***Individual Performance***

Individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. The first section of the PDR form contains a scorecard in which your individual Performance Targets will be documented. You and your supervisor will jointly identify and agree to your individual Performance Targets and relative weightings to be achieved during the year.

In overview, the PDR requires each individual to have 5 Performance Targets. The Performance Targets should be specific and measurable and aligned with the Company performance targets. Each target needs to be evaluated on a range of 0 to 120% according to its importance relative to other targets. In this way excelling at your highest priority target, which has the heaviest weighting, will drive a bigger award. At least one of the targets should be linked to a personal development objective. At the beginning of 2009, a structured performance review will be conducted to determine how well you performed against your targets in 2008. **It will be the Performance Scorecard Summary Rating for these 5 Performance Targets and NOT the "overall" performance rating that will be used for AIP award purposes (see below).**

**Annual Performance and Development Review**

Name: \_\_\_\_\_ Location: \_\_\_\_\_  
Position Title: \_\_\_\_\_ Appraisal Period: \_\_\_\_\_  
Performance Factors: E=Exceeds Expectations, M=Meets Expectations, P=Progressing, D=Does Not Meet Expectations, T=Too Soon To Rate

Double-click here to make selections.

Performance Scorecard						
BSC Quadrant	Performance Target	Target Measure	Weight %	Results/Comments	Emp. Rating	Sup. Rating
Finance						
Customer						
Process						
Employee						

Scorecard Summary Rating (click one box) ☐ Exceeds ☐ Meets ☐ Progressing ☐ Does Not Meet ☐ Too Soon

## Performance Category

Each participant in the AIP plan should have 5 performance targets. An assessment should be made of performance against each target. Once evaluated, each individual performance target rating will be added and averaged to determine an overall rating.

### Example #1

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount	Weighting	Subtotal
PT#1 (Meets Expectations)	Target fully achieved	100 x	20% =	20
PT#2 (Meets Expectations)	Target largely achieved	85 x	20% =	17
PT#3 (Does Not Meet Expectations)	Target not achieved	0 x	20% =	0
PT #4 (Progressing)	Target partially achieved	60 x	20% =	12
PT #5 (Exceeds Expectations)	Target exceeds expectations	120 x	20% =	24

Take each performance target percentage amount and multiply it by its assigned weight. Add the subtotal numbers = 73 (Individual Weighting Factor) 73% would be used as the INDIVIDUAL weighting factor in the AIP plan.

### Example #2

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount	Weighting	Subtotal
PT#1 (Exceeds Expectations)	Target exceeds expectations	120 x	10% =	12
PT#2 (Meets Expectations)	Target largely achieved	90 x	20% =	18
PT#3 (Does Not Meet Expectations)	Target not achieved	0 x	10% =	0
PT #4 (Progressing)	Target partially achieved	55 x	20% =	11
PT #5 (Meets Expectations)	Target fully achieved	100 x	40% =	40

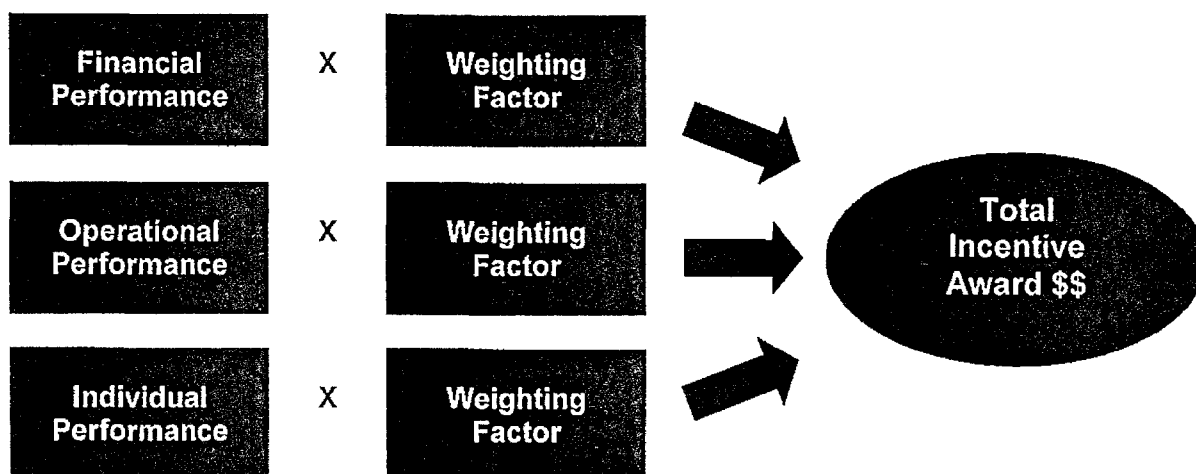
81 would be the subtotal and 81% would be used as the INDIVIDUAL weighting factor in the AIP plan.

<b>2008 Target Rating Scale</b>	
<b>Rating</b>	<b>Scale</b>
Exceeds Expectations	101 – 120%
Meets Expectations	
- Target Fully Achieved	100%
- Target Largely Achieved	75 – 99%
Progressing	
- Target Partially Achieved	25 – 74%
Does Not Meet Expectations	0%
- Not Achieved	
Too Soon to Rate	0%

Performance ratings can range from 0% - 120%. The degree of percentage given will be based on the supervisor's assessment of performance on the performance target. The maximum payment you can receive under the Individual component is 120%. This would only be awarded if an individual exceeded all 5 performance targets. This should be used only in cases of exceptional and outstanding performance against a target. If an individual received a "too soon to rate" or "does not meet expectations" on their performance scorecard they would not be eligible for an AIP award.

### ***How Your Payout Is Determined***

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. Here is a simplified way to think of it.



(See example on page 11.)

2008 AIP Payout Example

**L9 REGION EXAMPLE:**

Target Opportunity is 10% with 30% Corporate Operating Income, 10% Divisional/Regional/State Operating Income, 30% Operational and 30% Individual Components

**Financial Performance**

Corporate (Operating Income)

Achievement against financial target = 103.000% x 3.000% (Target) = 3.090%

Divisional/Regional/State (Operating Income)

Achievement against financial target = 101.000% x 1.000% (Target) = 1.010%

**Operational Performance**

Achievement against operational targets = 97.95% x 3.000% (Target) = 2.939%

**Individual Performance**

Achievement against 5 Performance targets = 98.70% x 3.000% (Target) = 2.961%

Total AIP payable is 3.090% (Corporate Operating Income) + 1.010% (Divisional/Regional/State Operating Income) + 2.939% (Operational) + 2.961% (Individual) is 10.00% of annual base salary of \$65,000 or \$6,500

Salary	x	AIP Target	equals	Target Payout	Maximum Payout
\$65,000		10%		\$6,500	\$8,580
Corporate Operating Income (30%)				Financial/Operational/Individual (70%)	
Corporate Operating Income =3%		Divisional/Regional/State Operating Income =1.00%		Operational Results =3.00%	Individual Performance Targets =3.00%
Target		Target		Target	Target
\$1,950		\$650		\$1,950	\$1,950
Actual		Actual		Actual	Actual
\$2,009		\$657		\$1,910	\$1,925
Maximum = 150%		Maximum = 150%		Maximum= 120%	Maximum= 120%
\$2,925		\$975		\$2,340	\$2,340

## ***Target Bonuses***

You will have received a letter which states your target bonus opportunity. Target bonus is defined as the bonus paid at 100% for both financial and individual awards. This means business plan is achieved for the financial and operational element, and the employee has met his/her objectives for the individual element.

The maximum bonus you can receive is 150% of your Financial element (both Corporate and Divisional/Regional/State), 120% of Operational and 120% of your Individual element.

## ***Adjustments for Uncontrollable Events***

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2008, using the assumptions set at that time. As in previous years, the actual results used for assessment may be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Chief Executive Officer and the Chief Financial Officer, and if material, the Board, whose decision will be final. The following items are those most likely to be considered for amendment:

- Weather conditions having a material impact on the financial results
- The impact of movements in foreign exchange rates
- Disposal/acquisition of businesses not anticipated in the business plan, but subsequently mandated by the Board of Directors
- Goodwill impairments
- Costs related to the public offering

## ***Award Payments***

To be eligible to receive an AIP award, you must be actively employed on the date the payment is made. However, in case of disability, retirement, layoff or death during the plan year, a prorated award based on participation in the plan may be payable. Employees who resign or are terminated for cause at any time prior to payment are not eligible.

Awards are usually determined and paid in cash as soon as possible after the release of financial results. Awards are paid by March 15<sup>th</sup> of the following year. Awards are subject to all federal, state and local income tax withholdings.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect your participation in the plan.

The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances, such as failing to reach minimum financial goals. Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award.

## ***Rewarding Achievement***

Our AIP goals are challenging, but with your focus and contribution and effective teamwork, they can be achieved. Remember, your individual results do matter; our overall performance is the collective results of all our employees.

It is important that you clearly understand your goals, how we are performing against the goals, and how the AIP works so you know how you personally affect our performance. Be sure to talk to your manager or your local HR representative if you have questions.

This brochure describes the 2008 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.

## ***Attachment A***

***Company bonus 2008 for American Water will be based on Operating Income. If the Operating Income results are met, the award payout will be based on the following:***

Bonus payout curve: Range between 0% and 150%	
% of Operating Income Achieved	% Payout
115%	150%
112%	140%
109%	130%
106%	120%
103%	110%
100% *	100%
97%	80%
94%	60%
91%	40%
88%	20%
85%	0%

\* Business Plan Operating Income

Operating Income is defined as earnings before interest, taxes and other non-operating expenses. The bonus payout curve applies to Corporate, Divisional/Regional and State Operating Income.

## ***Attachment B***

### **2008 AIP OPERATIONAL MEASURES & TARGETS**

#### **Environmental Compliance**

For determining the Environmental Compliance AIP component, American Water will count Notices of Violation for which the Company is responsible as described in the Environmental Non-Compliance reporting Practice. Target allocation of NOV's is as follows: Eastern Division - 8, Western Division - 8, AWE - 4. AW Corporate holds 1 NOV in reserve for a total AW target of 21. For award, if the AW total is at or below the total target of 21 the AIP is awarded to all based on the AW total result. If the total AW target is exceeded the AIP will be evaluated and awarded by the individual Division and AWE target allocations.

#### **Environmental Compliance Award Scale**

<u>% of Target</u>	<u>Award</u>
≤ 50%	120%
75%	110%
100%	100%
110%	70%
120%	30%
≥ 130%	0%

## Attachment B

### Safety Performance

For the OSHA Total Recordable Incident Rate (ORIR), year over year reduction targets are as follows: 2008 - 5%, 2009 - 10%, 2010 - 10%. Performance will be evaluated individually for New Jersey, Pennsylvania, West Virginia, Kentucky, Illinois, Indiana, Missouri, Arizona, California, AWE Contract Operations, AWE Military Services, AWM, and AWE Canada. Performance evaluations will also be made for the following smaller State groupings: 1. Long Island Water Company, Tennessee, Maryland and Virginia (Eastern Division); 2. Ohio, Iowa, Michigan, Texas, New Mexico and Hawaii (Western Division).

ORIR Targets for 2008		
Business Unit	2007 Actual ORIR	2008 AIP Target
AWE	5.61	5.33
AWM	4.07	3.87
Military	6.67	6.34
NE Canadian O&M	4.86	4.62
<b>AWE Total</b>	<b>5.24</b>	<b>4.98</b>
Kentucky	6.06	5.76
New Jersey	10.38	9.86
Pennsylvania	8.62	8.19
West Virginia	5.8	5.51
LI, MD, TN, VA Consolidated	6.7	6.37
<b>Eastern Total</b>	<b>8.09</b>	<b>7.69</b>
Illinois	10.59	10.06
Indiana	10.2	9.69
Missouri	11.63	11.05
Arizona	9.11	8.65
California	11.29	10.73
IA, MI, OH, HI, NM, TX Consolidated	7.81	7.42
<b>Western Total</b>	<b>9.68</b>	<b>9.20</b>
<b>American Water Total</b>	<b>7.11</b>	<b>6.75</b>

### Safety Performance Award Scale

Result	Award
> 20% Reduction from YE 2007	120%
> 10% Reduction from YE 2007	110%
>= 5% Reduction from YE 2007	100%
> 2.5% Reduction from YE 2007	70%
< 2.5% reduction from YE 2007	30%
Increase from YE 2007	0%

## ***Attachment B***

### **Customer Satisfaction**

This operational metric measures through a survey the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages within the top two categories (extremely and very satisfied) are indicative of customer satisfaction levels associated with brand/product/service loyalty and advocacy. Focusing attention in this area will drive both this and overall satisfaction in a positive direction. For 2008 a challenging goal of 70% has been set for customer satisfaction in the top two response categories. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows: MD will be grouped with VA; MI with IN; HI and NM with AZ; and TX with MO.

Note: The top three response category % for this measure (extremely, very & somewhat satisfied) is also a meaningful measure for overall customer satisfaction and correlates to the former AIP metric and goal of 95% for survey question, "Overall, how satisfied are you with the service or services offered by (Company Name)?". While not an AIP metric for 2008, the existing overall customer satisfaction goal of 95% remains as a performance target from the COO and is to be cascaded throughout AW as personal performance targets.

Customer Satisfaction Award Scale

<u>% Achieved</u>	<u>Award</u>
≤ 65%	0%
66%	10%
67%	20%
68%	40%
69%	80%
70%	100%
71%	110%
≥ 72%	120%

## Attachment B

### Service Quality

The AW goal is to achieve "world class" status of performance system-wide within the next three years (market survey professionals indicate achieving 85% is approaching "world class" status). For 2008, targets will be based on actual 2007 performance levels as follows. For Companies not achieving the 2007 goal of 80%, 2008 is a performance improvement year with the target remaining at 80%. For Companies achieving 80% or better in 2007, 2008 targets are your 2007 final result with a target cap of 85%. These Companies will use a graduated incentive payout scale shown below. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows. MD will be grouped with VA; MI with IN; HI with AZ; and TX with MO.

Service Quality Satisfaction - 2008 Targets		
State	2007 Result	Target
New Jersey	78	80
New York	71	80
West Virginia	80	80
Kentucky	87	85
Tennessee	84	84
Pennsylvania	84	84
Virginia/Maryland	87	85
Indiana/Michigan	86	85
Ohio	85	85
Illinois	80	80
Iowa	86	85
Missouri/Texas	84	84
California	83	83
New Mexico	89	85
Arizona/Hawaii	84	84
American Water	83	

### Service Quality Award Scale

2007 Result < 80%		Target Between 80% & 84%		Target = 85%	
Award	% Achieved	Award	% point change from 2007	Award	Actual % Achieved
120%	≥ 83%	120%	3%	120%	87%
110%	82%	110%	2%	110%	86%
100%	80%	100%	0%	100%	85%
70%	79%	70%	-1%	70%	83%
30%	78%	30%	-2%	30%	82%
0%	77%	0%	-3%	0%	81%

## ***Attachment C***

### **Operational Parameters for 2008 AIP - Payout Scale and Relative Weighting – Customer Service Centers**

#### **I. Relative Weighting**

34%

33%

33%

#### **II. Payout Scales**

##### **CUSTOMER SATISFACTION**

% Achieved    Payout (%)  
See Page 17

##### **SERVICE QUALITY**

%  
Achieved    Payout (%)  
See Page 18

##### **SERVICE LEVEL**

% Achieved    Payout (%)  
< 72%            0%  
72% - <80%      75%  
80%              100%  
>80% - <84%    105%  
84% - < 86%    110%  
86%              120%

## ***Attachment C***

### **Operational Parameters for 2008 AIP - Payout Scale and Relative Weighting -- Shared Services Center**

#### **I. Relative Weighting**

**55%**

**45%**

#### **II. Payout Scales**

<b><u>QUALITY</u></b>		<b><u>COMPLIANCE</u></b>	
<b><u>% Achieved *</u></b>	<b><u>Payout (%)</u></b>	<b><u>% Achieved *</u></b>	<b><u>Payout (%)</u></b>
<75%	0%	<75%	0%
75%	25%	75%	25%
80%	50%	80%	50%
85%	75%	85%	75%
90%	100%	90%	100%
95%	110%	95%	110%
100%	120%	100%	120%

- \* If the percentage achieved is between the range parameters of the scale, the payout percentage will be derived from the actual percentage achieved. For example, if the percentage achieved is 88%, the payout percentage will be 90%.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 3-2

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- Q: Achievement Incentive Pay (AIP). Refer to the direct testimony of Company witness Paul G. Townsley at page 13. Please provide a breakout, by amount and account, of the test year AIP expense of \$475,900 between each of the two water and three wastewater districts that are included in the Company's filing.
- A: The amount of the test year Arizona American employees' AIP expense of \$475,900 allocated to each of the districts in this case are shown below. The expense was recorded in Account 501711.

<u>District</u>	<u>Annual Expense</u>
Anthem Water	\$44,560
Sun City Water	58,075
Anthem / Agua Fria WW	58,795
Sun City Wastewater	35,906
Sun City West Wastewater	30,382

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger

**Title:** Rate Analyst

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 6-1

Q. Payroll/Incentive Pay. Refer to the responses to RUCO 2-6, RUCO 2-87, RUCO 3-2, Schedule C-2, Adjustment No. SLH-1 for all five districts, Company workpaper "AI 08" for each district and the tables below. RUCO 2-6 requested the following:

*"Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in test year cost of service, and all pro forma adjustments."* Emphasis supplied

In response to RUCO 2-6, the Company provided a copy of its 2008 incentive plan, the amounts shown in column B of the table below and also stated the following: *"No pro forma adjustments were made to the test year expense."*

a. Please confirm that the amounts listed in the Company's responses to RUCO 2-6 and RUCO 3-2 are just the "corporate allocation amounts from Account 501711 and that AAWC has included in its request, amounts which include "12/31/2008 recorded" plus the "corporate allocation" amounts in Account 501711, which are shown in columns A, B and C.

Incentive Plan Expense Requested by AAWC: Account 501711

District	Per				
	12/31/08 Recorded	Corporate Allocation	12/31/08 Actual	RUCO 2-6 & RUCO 3-2	Difference
	(A)	(B)	(C)	(D)	(E)
Anthem Water	\$ 3,496	\$ 44,560	\$ 48,056	\$ 44,560	\$ 3,496
Sun City Water	\$ 4,224	\$ 58,075	\$ 62,299	\$ 58,075	\$ 4,224
Anthem/Aqua Fria Wastewater	\$ -	\$ 58,795	\$ 58,795	\$ 58,795	\$ -
Sun City Wastewater		\$ 35,906	\$ 35,906	\$ 35,906	\$ -
Sun City West Wastewater	\$ 17,753	\$ 30,382	\$ 48,135	\$ 30,382	\$ 17,753
Total	\$ 25,473	\$ 227,718	\$ 253,191	\$ 227,718	\$ 25,473

b. Please explain fully and in detail why the amounts totaling \$25,473 were not included in AAWC's responses to RUCO 2-6 and RUCO 3-2 as amounts that AAWC included in the test year including pro forma adjustments.

A: (a) Confirmed. The amounts listed in the Company's responses to RUCO

2-6 and RUCO 3-2 are just the "corporate allocation" amounts from Account 501711. There are district-level amounts from Account 501711 that are also included as part of the Company's request. The district-level amounts match the ones listed in column (A) in the table presented above.

- (b) It was an unintentional oversight. The Company did not realize that there were Incentive Plan costs being booked at the district level. Please see Company response to RUCO 6-3.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Paul Townsley  
**Title:** President

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-25

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**Q:** Stock-Based Compensation.

- a. List, by amount and account, all stock-based compensation expense charged to the Company during the test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that resulted in cost being charged to the Company during the test year.
- b. Please provide a description of each distinct stock-based compensation program that resulted in charges to the Company during the test year.
- c. List, by amount and account, all stock-based compensation expense in the Company's cost of service for the test year with pro forma adjustments, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that are projected to be charged to the Company during the test year.
- d. Please provide a description of each distinct stock-based compensation program that is projected to be included in the charges to the Company during the test year.

**A:**

- a. 

Account Number	Description	Amount
501716	Comp – Stock options	\$36,693
501717	Comp – Restricted Stock	28,834
501718	Comp – Restricted Stock Units	4,046
- b. The plan provides for grants of Non Qualified Stock Options, Company Stock and Stock Units<sup>1</sup> which may have certain restrictions placed upon them. All such grants of stock based compensation are subject to terms and conditions of a Grant Agreement which may include performance requirements or other requirements.
- c. Please see response to part a) as actual amounts had no pro forma adjustments.
- d. Please see part b.

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<sup>1</sup> A Stock Unit means an award of a phantom unit representing a share of Company stock.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger

**Title:** Rate Analyst

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 6-3

Q. Stock-Based Compensation. Refer to the response to RUCO 2-25, Company workpaper "08 A of I-AZ Corp Summary w/ Proformas Distributed to Distri" and the table below. The response to RUCO 2-25 indicated that for Account No. 501717 – Comp-Restricted Stock, the Company recorded a test year amount of \$28,834. However, as shown in the table below, the referenced Company workpaper indicated that AAWC recorded a total of \$49,751 for the districts that are the subject of this proceeding. Please explain and reconcile this discrepancy. Identify, quantify and explain each reconciling item.

			Anthem	Sun City	Anthem/Aqua	Sun City	Sun City West		
			Water	Water	Fria Wastewater	Wastewater	Wastewater		
501717	16	Comp Exp-Restricted Stk	\$ 9,735	\$ 12,688	\$ 12,845	\$ 7,845	\$ 6,638	\$	49,751

A: In the Company's response to RUCO 2-25 the Company accidentally provided only the Service Company portion of stock-based compensation. However, in addition, the Company made a mistake in its statement of stock based compensation for the test year due to an accounting error in the test year. Some stock based compensation was erroneously booked to an AAWC district (instead of the Corporate account) in the test year which is not a part of this case.

The following table breaks down all stock-based compensation in test-year, including the Service Company portion.

**Table 1.**

Account	Description	Service Co. Portion	AAWC Non-Affiliate Portion	Test Year Total
501716	Comp – Stock Options	\$ 36,693	\$ 41,909	\$ 78,602
501717	Comp – Restricted Stock	\$ 28,834	\$ 103,974	\$ 132,808
501718	Comp – Restricted Stock Units	\$ 4,046	\$ 43,232	\$ 47,278
				\$ 258,688

The next table breaks down the portion of stock-based compensation allocated to the districts in the test year.

**Table 2.**

District	4 Factor Percentage	Portion of Stock Based Comp
Anthem Water	9.363%	\$ 24,222
Sun City Water	12.203%	\$ 31,568
Anthem/Agua Fria Wastewater	12.354%	\$ 31,959
Sun City Wastewater	7.545%	\$ 19,517
Sun City West Wastewater	6.384%	\$ 16,515
	47.850%	\$ 123,782

The referenced amount of \$28,834 in the question above relates to the Service Company portion of Restricted Stock (as can be seen in Table 1) and the referenced amount of \$49,751 relates to the allocated portion of Restricted Stock from Non-Affiliates (47.85% of \$103,974, from Table 1).

Thus for Comp – Stock Options the Company had \$37,611 in expense (47.85% of \$78,602). Similarly for Comp - Restricted Stock, and Comp – Restricted Stock Units, the Company had \$63,548 and \$22,623 in expense, respectively. These amounts include the Service Company portion of stock-based compensation.

Because the Company did not include any allocation of AAWC non-affiliate Comp – Stock Options or Comp – Restricted Stock Units in its filing request (due to the aforementioned accounting error), it will update its case consistent with these changes in its rebuttal testimony.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-52

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- Q: Pension Expense. Please reconcile the amount of pension expense in the test year to the most recent actuarial reports concerning the determination of the net periodic benefit cost for each pension plan in which the Company employees participate. Identify, quantify and explain each reconciling item.
- A: The pension expense in the test year is based upon the funding requirement for the upcoming year based upon the actuarial report of Towers Perrin. See response to data request number RUCO 2-96 for explanations. A copy of the Plan is attached as RUCO 2-52 – AW 2009 Pension Qualified Plan Report.pdf.

*American Water Works Company, Inc.*  
*Pension Plan*

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**Actuarial Valuation Report**

**Pension Cost for Fiscal Year Ending December 31, 2009**

**Employer Contributions for Plan Year Beginning July 1, 2008**

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*March 2009*

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.

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## ***Management Summary of Valuation Results***

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## Financial Results

This report summarizes financial results for American Water Works Company, Inc. ("American Water" or AW") Pension Plan based on actuarial valuations as of January 1, 2009 and January 1, 2008 for determination of pension accounting cost, and valuations as of July 1, 2008 and July 1, 2007 for determination of plan contributions.

<b>FAS 87 Pension Cost<sup>(1)</sup></b>	<b>January 1, 2009</b>	<b>January 1, 2008</b>
Amount	\$ 81,116,478	\$ 39,625,996
<b>FAS 87 Funded Position</b>		
Accumulated benefit obligation [ABO]	\$ 866,421,615	\$ 772,542,892
Projected benefit obligation [PBO]	993,097,131	893,123,743
Fair value of assets [FV]	513,283,024	627,988,678
Overfunded (underfunded) PBO	(479,814,107)	(265,135,065)
PBO funded percentage [FV ÷ PBO]	51.7%	70.3%
<b>Employer Contributions</b>	<b>July 1, 2008</b>	<b>July 1, 2007</b>
Minimum funding requirement	\$ 64,177,894	\$ 75,996,105
Remaining cash requirement (assuming sponsor elects full use of available credit balance)	64,177,894	75,996,105
Maximum deductible contribution <sup>(2)</sup>	737,279,013	673,880,639
<b>ERISA Funded Position</b>		
Funding target [FT]	\$ 812,174,413	\$ 801,432,166 <sup>(4)</sup>
Actuarial value of assets [AVA]	634,664,895	591,972,484
Net actuarial value of assets [NAVA] <sup>(3)</sup>	631,285,122	N/A
Funding shortfall/(excess assets) [FT – NAVA]	180,889,291	N/A
Actuarial value of asset as a percentage of funding target	78.1%	73.9% <sup>(4)</sup>
Funding target attainment percentage	77.7%	N/A

(1) All FAS 87 results shown in this report were prepared before application of purchase accounting due to the sale of American Water to RWE.

(2) Estimated amount, pending issuance of Treasury/IRS guidance.

(3) Net actuarial value of assets is equal to the actuarial value of assets less the Plan's total credit balance.

(4) Results for 2008 are based on the plan's current liability.

MS-2

## FAS 87 Pension Cost and Funded Position

Pension cost is the amount recognized in AW's financial statement as the cost of the pension plan and is determined in accordance with Financial Accounting Standard No. 87. The Fiscal 2009 pension cost for the plan is \$81,116,478, or 26.1% of covered pay.

Under FAS 87, as amended by FAS 158, the projected benefit obligation (PBO) funded status of each pension plan at the plan's measurement date is required to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). The PBO is the actuarial present value of benefits attributed to service rendered prior to the measurement date, measured using expected future pay increases for pay-related plans. The plan's underfunded PBO as of January 1, 2009 was \$479.8 million, based on the fair value of plan assets of \$513.3 million and a PBO of \$993.1 million.

Fiscal year-end financial reporting and disclosures are prepared before detailed participant data and the full valuation results are available. Therefore, the December 31, 2008 postretirement benefit asset (liability) was derived from the July 1, 2008 valuation results. The 2009 financial reporting information will be developed based on the results of the July 1, 2008 valuation, rolled forward to the end of 2008 and adjusted for the year-end discount rate and asset values, as well as significant changes in plan provisions and participant population.

### Change in Pension Cost and Overfunded (Underfunded) PBO

The pension cost increased from \$39,625,996 in fiscal 2008 to \$81,116,478 in fiscal 2009 and the underfunded PBO increased from \$(265,135,065) on January 1, 2008 to \$(479,814,107), as set forth below:

	<b>Pension Cost</b>	<b>Funded Position</b>
Prior year	\$ 39,625,996	\$ (265,135,065)
Change due to:		
▶ Expected based on prior valuation	(2,982,015)	42,493,168
▶ Loss (gain) from noninvestment experience	1,762,793	(16,002,728)
▶ Loss (gain) from asset experience	37,809,962	(209,099,734)
▶ Assumption changes	4,899,742	(32,069,748)
▶ Plan amendments	<u>0</u>	<u>0</u>
Current year	\$ 81,116,478	\$ (479,814,107)

Significant reasons for these changes include the following:

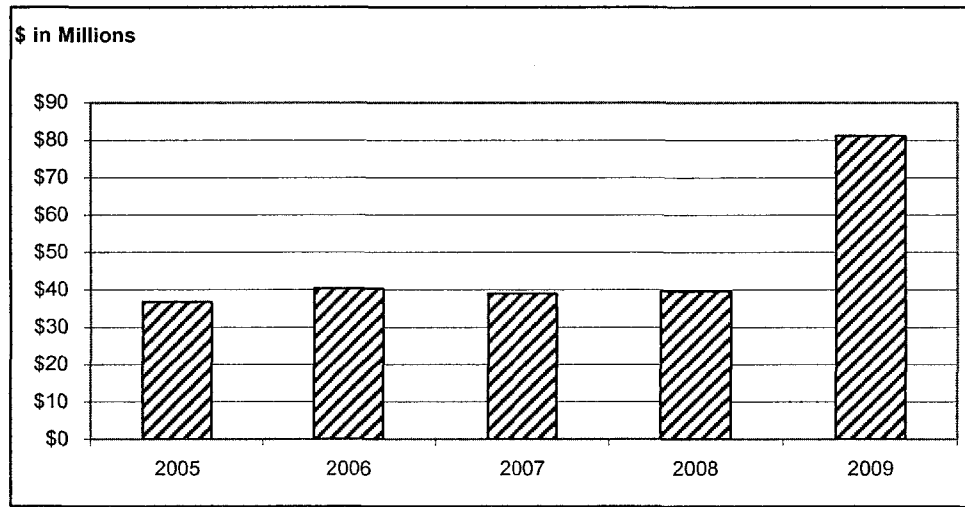
- ▶ The return on the fair value of plan assets since the prior measurement date was less than expected, which increased the underfunded PBO and increased pension cost.
- ▶ The assumed rate of future salary increases was lowered by 25 basis points, which decreased pension cost and decreased the underfunded PBO.
- ▶ The overtime assumption for union participants and nonunion, nonexempt participants was increased, which increased the underfunded PBO and decreased pension cost.
- ▶ The discount rate for benefit obligations was changed from 6.27% to 6.12%, which increased pension cost and increased underfunded PBO.
- ▶ Minor losses from what was assumed for plan demographics occurred, which increased pension cost and increased underfunded PBO.

MS-4

## History of Pension Cost

The following chart shows the history of the plan's pension cost.

**History of Pension Cost**



**History of Pension Cost**

-----Pension cost-----

<i>Fiscal year</i>	<i>Amount</i>	<i>Percent of covered pay</i>	<i>Discount rate</i>
2009*	\$ 81,116,478	26.1%	6.12%
2008*	39,625,996	13.4	6.27
2007*	38,968,697	13.5	5.90
2006	40,327,960	16.7	5.65
2005	36,845,672	15.5	6.00

\* All values on or after 2007 reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

## **Employer Contributions and ERISA Funded Position**

Under the Pension Protection Act of 2006 (PPA), the funded position is measured by comparing the actuarial value of assets, reduced by the plan's credit balance, with the funding target. The amount by which the funding target exceeds the net actuarial value of assets is the plan's funding shortfall. If the net actuarial value of assets exceeds the funding target, the difference is the plan's excess assets. The actuarial value of assets is an average of the fair market value over a three-month period, adjusted for contributions and disbursements. The funding target is the present value of benefits accrued or earned as of the valuation date. The target normal cost is the present value of benefits expected to be earned during the plan year. Plans that do not meet certain funded status criteria are considered to be at-risk and are required to use specific actuarial assumptions, and in some cases additional loads, that will generally increase the funding target and target normal cost.

The plan's funding shortfall is \$180,889,291 as of July 1, 2008. The plan's actuarial value of assets, including the credit balance, is 78.1% of the funding target as of July 1, 2008. This percentage is based on an actuarial value of assets of \$634,664,895 and a funding target of \$812,174,413.

The minimum funding requirement under the PPA is generally equal to the target normal cost plus amortization of the plan's funding shortfall and any funding waivers. For overfunded plans, the minimum funding requirement is reduced by the amount of the plan's excess assets. The minimum funding requirement for 2008 is \$64,177,894, or 20.6% of covered pay.

Plan sponsors that have in the past contributed more than the minimum may have a credit balance. Sponsors can elect to apply the plan's credit balance to offset the minimum funding requirement if certain other requirements are met.

Because the plan does not meet these requirements, the plan's credit balance of \$3,379,773 as of July 1, 2008 may not be used to offset the minimum funding requirement during this plan year. The credit balance may, by plan sponsor election on or before June 30, 2009, be forfeited or, alternatively, carried forward and potentially used in future years.

The maximum deductible contribution under the PPA is generally equal to 150% of the funding target, plus the target normal cost, plus an allowance for future pay or benefit increases, less the actuarial value of assets. For plans that are not at-risk, the deductible limit will not be less than the unfunded funding target plus the target normal cost, both determined as if the plan were at-risk. For all plans, the deductible limit will not be less than the minimum funding requirement. Pending issuance of Treasury/IRS guidance, the estimated maximum deductible contribution for the plan is \$737,279,013.

### **Timing of Contributions**

If a plan has a funding shortfall for the current plan year, quarterly contributions will be required in the following plan year. Because the plan has a funding shortfall, quarterly contributions for the 2008 plan year are required. The required amount is \$14,440,026, due on or before each of October 15, 2008, January 15, 2009, April 15, 2009, and July 15, 2009.

MS-6

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## **Funding Policy**

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. American Water makes plan contributions each plan year in four installments, one in August, one in November, one in February, and one in May, which, in total, suffice to cover the minimum funding requirement for the plan year, and, individually, suffice to cover the quarterly requirements in October, January, April, and July respectively of each plan year.

Plan year contributions were made in the amounts of \$15,000,000 during August of 2008, \$15,000,000 during November of 2008, and \$17,100,000 during February of 2009. Additionally, \$17,100,000 is expected to be funded during May of 2009.

## **Benefit Limitations**

Under the PPA, a plan may become subject to various benefit limitations if its funded status falls below certain thresholds. Plan amendments that increase benefits are prohibited if the effect of the amendment would be to reduce the adjusted funding target attainment percentage (AFTAP) below 80%. Benefit accruals must cease and shutdown benefits are prohibited if the AFTAP falls below 60%. To avoid these benefit limitations, a plan sponsor may either contribute certain additional amounts for the current plan year or provide security outside the plan.

Plans are prohibited from paying lump sums or other accelerated forms of distribution if the AFTAP is below 60%, and only reduced amounts are allowed to be paid if the AFTAP is between 60% and 80%.

The AFTAP for 2008 is 77.7% as of July 1, 2008.

However, per American Water's legal counsel, American Water is considered a collectively bargained plan and as such is exempt from potential benefit restrictions until the plan year beginning July 1, 2010.

## **PBGC Reporting Requirements**

For plan years beginning after 2006, the PPA eliminated the PBGC participant notification requirements for plans that are required to pay a PBGC variable premium and have a funded percentage below a specified "gateway" percentage. For plan years beginning in 2008, all defined benefit plans subject to Title IV of ERISA are required to issue annual funding notices (due 120 days after the end of the plan year).

With respect to reporting years beginning before 2008, additional financial and actuarial information must be provided to the PBGC if, at the end of the year, all defined benefit plans within the controlled group have an unfunded vested liability of \$50 million or more using assumptions mandated by the PBGC.

As of year end 2007, unfunded vested liabilities for all defined benefit plans within the controlled group were more than \$50 million. Consequently, additional financial and actuarial information was provided to the PBGC.

For reporting years beginning after 2007, the PPA changed the \$50 million threshold. A filing will now be required if the funding target attainment percentage (FTAP) for the year is less than 80% for any plan

## ***Supplemental Information***

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<b><i>Basic Results for Pension Cost and Funded Position .....</i></b>	<b><i>SI-2</i></b>
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<b><i>Plan Provisions.....</i></b>	<b><i>SI-20</i></b>

## Asset Values

### Asset Values for Calculating Pension Cost and Funded Position

Fair value (excludes contributions receivable):

▶ As of January 1, 2008	\$ 627,988,678
▶ Contributions	76,000,000
▶ Disbursements	(30,666,719)
▶ Investment return	<u>(160,038,935)</u>
▶ As of January 1, 2009	\$ 513,283,024
▶ Rate of return	(24.6)%

Market-related value:

▶ As of January 1, 2008	\$ 627,988,678
▶ As of January 1, 2009	513,283,024
▶ Rate of return	(24.6)%

### Asset Values for Calculating Employer Contributions

Market value (includes contributions receivable):

▶ As of July 1, 2007	\$ 613,302,064
▶ Contributions	76,631,850
▶ Disbursements	(32,132,123)
▶ Investment return	<u>(41,917,693)</u>
▶ As of July 1, 2008	\$ 615,884,098
▶ Rate of return	(6.6)%

Actuarial value:

▶ As of July 1, 2007	\$ 591,972,484
▶ As of July 1, 2008	634,664,895
▶ Rate of return	(0.5)%
▶ Rate of return (assuming mid-year cash flow) for Schedule SB of form 5500	(0.5)%

SI-2

## Basic Results for Pension Cost and Funded Position

	January 1, 2009	January 1, 2008
<b>Service Cost</b>	\$ 28,170,353	\$ 25,892,330
<b>Obligations</b>		
Accumulated benefit obligation [ABO]:		
▶ Participants currently receiving benefits	\$ 330,657,804	\$ 305,427,668
▶ Deferred inactive participants	79,646,589	77,443,963
▶ Active participants	<u>456,117,222</u>	<u>389,671,261</u>
Total ABO	\$ 866,421,615	\$ 772,542,892
Obligation due to future salary increases	<u>126,675,516</u>	<u>120,580,851</u>
Projected benefit obligation [PBO]	\$ 993,097,131	\$ 893,123,743
<b>Assets</b>		
Fair value [FV]	\$ 513,283,024	\$ 627,988,678
Unamortized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 513,283,024	\$ 627,988,678
<b>Funded Position</b>		
Overfunded (underfunded) PBO [FV – PBO]	\$ (479,814,107)	\$ (265,135,065)
PBO funded percentage [FV ÷ PBO]	51.7%	70.3%
<b>Amounts Not Yet Recognized in Net Periodic Cost</b>		
Net actuarial loss (gain)	\$ 423,099,577	\$ 171,339,010
Prior service cost (credit)	<u>2,605,296</u>	<u>3,312,817</u>
Total	\$ 425,704,873	\$ 174,651,827
Prepaid (accrued) pension cost as of January 1	(54,109,234)	(90,483,238)
<b>Key Economic Assumptions</b>		
Discount rate	6.12%	6.27%
Rate of return on assets	7.90%	7.90%
Salary increase rate	4.00%	4.25%

SI-3

## Pension Cost

	Fiscal 2009	Fiscal 2008
<b>Pension Cost</b>		
Service cost	\$ 28,170,353	\$ 25,892,330
Interest cost	61,493,551	56,675,301
Expected return on assets	(42,224,081)	(51,701,245)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	707,521	707,521
▶ Net loss (gain)	<u>32,969,134</u>	<u>8,052,089</u>
Pension cost	\$ 81,116,478	\$ 39,625,996
Percent of covered pay	26.1%	13.4%
Per active participant	\$ 16,626	\$ 7,842

SI-6

## Minimum Required Employer Contribution

	July 1, 2008	July 1, 2007
<b>Minimum Required Employer Contribution</b>		
Target normal cost	\$ 33,967,724	N/A
Net shortfall amortization charge	30,210,170	N/A
Waiver amortization charge	0	N/A
Excess assets	<u>0</u>	<u>N/A</u>
Minimum funding requirement	\$ 64,177,894	N/A
Available credit balance	0	N/A
Final cash requirement*	64,177,894	\$ 75,996,105
Percent of covered pay	20.6%	25.8%
Per active participant	\$ 13,154	\$ 15,040

Additional details regarding the calculation of the minimum required employer contribution may be obtained from the Form 5500 Schedule SB filings and attachments.

- \* Note that the plan does not meet the requirements which would otherwise allow for optionally electing to use credit balance to reduce the minimum cash funding requirement for the plan year beginning July 1, 2008.

SI-8

## Maximum Deductible Employer Contribution

	July 1, 2008	July 1, 2007
<b>Basic Funding Limit</b>		
Funding target	\$ 812,174,413	N/A
Target normal cost	33,967,724	N/A
Statutory cushion amount	<u>525,801,771</u>	<u>N/A</u>
Basic funding limit	\$ 1,371,943,908	N/A
<b>Maximum Deductible Employer Contribution</b>		
Maximum funding limit	\$ 1,371,943,908	N/A
Actuarial value of assets	<u>634,664,895</u>	<u>N/A</u>
Preliminary maximum contribution	\$ 737,279,013	N/A
Minimum funding requirement	64,177,894	N/A
Maximum deductible contribution	\$ 737,279,013*	\$ 673,880,639
Percent of covered pay	237.1%	228.5%
Per active participant	\$ 151,113	\$ 133,362

\* Estimated amount, pending issuance of Treasury/IRS guidance

The following union groups are excluded from this benefit freeze provision:

- ▶ Union employees at Sterling or Alton, Illinois
- ▶ Union employees at Pensacola, Florida
- ▶ Union employees as of January 15, 2002 who were included in the Citizens Utility acquisition
- ▶ Elizabethtown Water Company employees of Local 423 hired before April 1, 2006 or Local 68 hired before May 1, 2006

Note: Years of service for purposes of determining eligibility for benefits (vesting, disability, early retirement and preretirement death benefits) continue to accrue for all union participants whose benefits are frozen as of December 31, 2005.

- (n) Recent acquisitions — service credit from dates shown below:

<u>Location</u>	<u>Date</u>
Country Place Water	June 30, 1995
Hawaii American Water	July 1, 1998
City of Florissant, MO (nonunion employees)	November 1, 2001
Texas American Water	July 1, 2002
City of Webster Groves, MO	February 8, 2002
LP Water and Sewer Company (nonunion employees)	April 3, 2002

3. Eligibility for Participation: Each employee commences participation on the first day of the calendar month next following completion of one Year of Service. The following groups of employees are not eligible to participate in the plan:

- (a) Nonunion employees hired or rehired on or after January 1, 2006
- (b) Union employees hired or rehired on or after January 1, 2006 (April 1, or May 1, 2006 for employees of Elizabethtown Water unions 423 and 68 respectively)
- (c) Any employee who was not eligible to accrue a benefit as of January 1, 2006 (with noted exceptions for certain union groups).

4. Benefits:

- (a) Normal Retirement Benefit:

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** **Jim Bozman**  
**Title:** Senior Financial Analyst

**Address:** 131 Woodcrest Road  
Cherry Hill, NJ 08003-3620

**Company Response Number:** RUCO 2-95

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**Q:** Please provide all documents showing the performance of the defined benefit pension plan in 2009.

**A:** Attached is the most recent (Q3) report from our investment advisor Callan. Page 16 provides a performance summary for various ending periods and includes information on all pension amounts from various funds by each asset class.

The last four pages of the report are confidential and proprietary to Callan and have been eliminated. It is a list of managers that do business with Callan and does not impact the nature of the question.

As displayed on page 16, the total return year-to-date 2009 is 20.34%.

**Callan Associates Inc.  
Investment Measurement Service  
Quarterly Review**

**American Water Works Company  
Pension Plan  
September 30, 2009**

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The following report was prepared by Callan Associates Inc. ("CAI") using information from sources that include the following: fund trustee(s); fund custodian(s); investment manager(s); CAI computer software; CAI investment manager and fund sponsor database; third party data vendors; and other outside sources as directed by the client. CAI assumes no responsibility for the accuracy or completeness of the information provided, or methodologies employed, by any information providers external to CAI. Reasonable care has been taken to assure the accuracy of the CAI database and computer software. In preparing the following report, CAI has not reviewed the risks of individual security holdings or the compliance/non-compliance of individual security holdings with investment policies and guidelines of a fund sponsor, nor has it assumed any responsibility to do so. Copyright 2009 by Callan Associates Inc.



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### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended September 30, 2009. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended September 30, 2009

	Last Quarter	Last 3/4 Year	Last Year	Last 3 Years	Last 5 Years
<b>Large Cap Equity</b>	<b>15.63%</b>	<b>19.43%</b>	<b>(6.73%)</b>	<b>(5.35%)</b>	<b>1.02%</b>
Vanguard Inst. Index Fund	15.63%	19.43%	(6.73%)	(5.35%)	1.02%
S&P 500	15.61%	19.26%	(6.91%)	(5.43%)	1.02%
<b>Small Cap Equity</b>	<b>21.41%</b>	<b>32.26%</b>	<b>(2.00%)</b>	<b>(2.03%)</b>	<b>4.15%</b>
Eagle Asset	19.41%	32.25%	-	-	-
Fisher	23.49%	32.24%	-	-	-
Russell 2000 Index	19.28%	22.43%	(9.55%)	(4.57%)	2.41%
<b>International Equity</b>	<b>18.11%</b>	<b>23.68%</b>	<b>0.73%</b>	<b>(4.68%)</b>	<b>5.53%</b>
Pyramis	18.47%	24.72%	-	-	-
Principal	17.75%	22.66%	-	-	-
MSCI EAFE Index	19.47%	28.97%	3.23%	(3.60%)	6.07%
<b>Domestic Fixed-Income</b>	<b>4.78%</b>	<b>12.35%</b>	<b>7.78%</b>	<b>3.71%</b>	<b>4.03%</b>
Evergreen Core Bond	11.04%	16.76%	16.24%	5.56%	4.78%
Custom Benchmark*	3.74%	5.72%	10.56%	6.41%	5.08%
John Hancock	3.41%	15.36%	0.17%	4.33%	5.41%
BC Govt/Credit Bd	4.16%	4.74%	11.46%	6.25%	4.92%
BC Agg	3.74%	5.72%	10.56%	6.41%	5.13%
Principal Group	9.23%	18.91%	10.88%	-	-
<b>Total Fund</b>	<b>13.88%</b>	<b>20.34%</b>	<b>4.26%</b>	<b>0.11%</b>	<b>3.73%</b>
Total Fund w/o John Hancock	16.22%	22.20%	5.67%	-	-
Total Fund Target	13.65%	19.18%	3.00%	0.29%	3.90%

\* Current Quarter Target = 36.0% S&P 500 Index, 30.0% BC Aggregate Index, 22.0% MSCI EAFE Index and 12.0% US Small Cap 1750 Index.

\* Custom benchmark is BC Govt/Credit up until 09/30/2005 and BC Agg thereafter.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-60

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**Q:** AzAWC pension and OPEB expense.

- a. Provide the amount of actual expense AzAWC recorded for pensions each year from 2004 through 2009.
- b. Provide the amount of actual expense AzAWC recorded for OPEBs each year from 2004 through 2009.
- c. Provide the amount of actual AWWSC charges to AzAWC for OPEBs each year from 2004 through 2009.
- d. Has any examination ever been conducted regarding whether and how AzAWC's funding for pensions and OPEBs has minimized costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.
- e. Has AzAWC ever examined converting its defined benefit pension plan to some other type of retirement benefit in order to help control costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

**A:**

a. Pension

2004	2005	2006	2007	2008
\$146,893	\$317,798	\$1,013,141	\$903,222	\$1,734,561

b. OPEBs

2004	2005	2006	2007	2008
\$73,823	\$63,196	\$74,032	\$62,603	\$75,723

- c. Please see response to question RUCO 2-59 a & b.
- d. Please Company response to RUCO 2-59c.
- e. Please see Company response to RUCO 2-59d.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-43

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**Q:** Please identify the amounts included in cost of service during the test year from each affiliated company, including but not limited to the American Water Works Service Company for the following items:

- a. Membership dues in service, social and professional organization (identify);
- b. Lobbying expenses;
- c. Charitable contributions;
- d. Investor relations expenses;
- e. Public relations expense, including an explanation of the nature and purpose of the activities, and
- f. Advertising expenses broken down by categories including project, marketing, corporate, institutional, informational, etc.
- g. Business development.
- h. Executive compensation.

**A:**

- a. See attachment labeled RUCO 2-43a Membership Dues.xls.
- b. There were no lobbying expenses charged to Arizona by affiliates during the test year period.
- c. See attachment labeled RUCO 2-43c Charitable Contributions.xls.
- d. Investor relations expenses for the test year were \$19,172.
- e. See attachment labeled RUCO 2-43e Public Relations.xls.
- f. See attachment labeled RUCO2-43f Advertising.xls.
- g. Business development expenses for the test year were \$101,395.
- h. Please see response to data request number RUCO 2-25.

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

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**Response to Data Request No. RUCO 2-43 (a)**

**Account 575240 - Company Dues & Memberships Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575240	ACTEVA Event Registration	2
575240	AICPA	27
575240	American Bar Association	12
575240	American Water Works Association	12
575240	AMTRACK	4
575240	Association of Certified Fraud Examiners	7
575240	Association of Corporate Counsel	108
575240	Corporate Executive Board	1,034
575240	DELTA AIR	21
575240	Dun & Bradstreet Inc	119
575240	Grandview NTP Media	5
575240	Information Systems Audit and Control Assoc	17
575240	Institute for Supply Mgmt	29
575240	Institute of Certified Management Accountants	8
575240	National Investor Relations Institute	26
575240	NJ Lawyers Fund	9
575240	NJ Society of CPA's	5
575240	Propurchaser.com Inc	79
575240	REASON MAGAZINE	1
575240	SALARIESREVIEW.COM	7
575240	Six Sigma Academy International	37
575240	Society for Human Resource Mgmt	7
575240	State of NJ Board of Accountancy	4
575240	The State Bar of California	212
575240	USAIRWAYS	9
575240	Misc & Adjustments	530
<b>575240 Total</b>		<b>2,331</b>

**Account 575241 - Company Dues & Memberships Non-Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575241	Boston College Center for Corporate Citizenship	862
575241	University Club atop Symphony Towers	524
<b>575241 Total</b>		<b>1,386</b>

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

Page 2 of 3

**Response to Data Request No. RUCO 2-43 (a)**  
**Account 575242 - Company Dues Deductible American Water Works Association**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575242	American Water Works Association	39
575242 Total		39

**Account 575280 - Dues & Memberships Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575280	Accuity Inc	(4)
575280	AICPA	17
575280	American Bar Association	195
575280	American Chemical Society	25
575280	American Management Association	10
575280	American Payroll Association	31
575280	American Society for Industrial Security	21
575280	American Society of Microbiology	3
575280	American Society of Training and Development	85
575280	American Water Works Association	83
575280	APICS Association for Operations Management	5
575280	Association for Financial Professionals	18
575280	Association of Certified Fraud Examiners	7
575280	Association of Metropolitan Water Agencies	577
575280	Burton Group Inc	6,129
575280	Business for Social Responsibility	421
575280	Central Coast Human Resources Association	32
575280	Corporate Executive Board	1,633
575280	Dun & Bradstreet Inc	60
575280	Economic Engine	8
575280	Foundation of Cross Connection Control and Hydraulic Resea	46
575280	GANTTHEAD COM	7
575280	Greater Phila Chamber of Commerce	1,057
575280	Growth Association of SW Illinois	6
575280	Harvard Business School	3
575280	Human Resource Management Association	10
575280	Human Resources Certification Institute	5
575280	Information Systems Audit and Control Assoc	28
575280	Institute for Supply Management	6
575280	Institute of Management and Administration	12
575280	International Accounts Payable Association	35
575280	J J Keller & Associates Inc	708
575280	LAWYERS CLUB OF S00 OF	116
575280	Leadership Council	996
575280	Mid Atlantic Employers Association	22
575280	National Association of Corporate Directors	20
575280	National Federation of Agents	37
575280	National Fire Protection Association	14

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

**Response to Data Request No. RUCO 2-43 (a)**

575280	National Investor Relations Institute	50
575280	National Notary Association	74
575280	National Registered Agents	52
575280	Nat'l Council for Public Private Partnerships	480
575280	NC State Board of CPA Examiners	2
575280	Network Solutions	231
575280	Norex Inc	393
575280	NYS Office of Court Administration	30
575280	Organization Resources Counsel	209
575280	PA Institute of CPA's	31
575280	Penjerdel Employee Benefits & Compensation Assoc	12
575280	Pensacola Area Chamber of Commerce	31
575280	Philadelphia Public Relations	7
575280	Project Management Institute	12
575280	Propurchaser.com Inc	79
575280	Public Relations Society	55
575280	QWIK Prints	31
575280	Ragan Communications Inc	13
575280	Secretary Board of Bar Examiners	35
575280	Society for Human Resource Mgmt	134
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575280	St Louis Post Dispatch -Subscription	10
575280	State Bar of California	172
575280	Strafford Publications	4
575280	The Human Resource PLN	23
575280	The Institute of Internal Auditors	41
575280	The institute of International Accountants	38
575280	THE Minority Supplier Development Council of PA NJ DE	77
575280	The United States Conference of Mayors	1,684
575280	Tri-State Human Resources Management Assoc.	7
575280	Ulico Casualty Co	1
575280	United Communications	13
575280	United States Chamber of Commerce	-
575280	Valley of the Sun Human Resource Association	109
575280	Wall Street Journal	11
575280	Water Environment Federation	5
575280	Water Partnership Council	2,641
575280	World at Work	10
575280	Zoomerang	22
575280	Misc & Adjustments	(4,342)
575280	<b>Total</b>	<b>15,143</b>

**Account 575281 - Dues & Memberships Non-Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575281	Misc Purchase Card transactions	52
575281	<b>Total</b>	<b>52</b>

**Grand Total Dues & Memberships** **18,951**

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

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**Response to Data Request No. RUCO 2-43 (c)**

**Account 575140 - Charitable Contributions Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575140	Alton PB & PA Unit #14 - REMIT	47
575140	American Cancer Society	277
575140	American Heart Association	211
575140	Communities in School	86
575140	Greater Phila Chamber of Commerce	211
575140	Johnny Mac's	59
575140	Juvenile Diabetes Research Foundation	211
575140	Los Altos Conquer Education Fund	43
575140	Metro Sports	32
575140	National Hemophilia Foundation	2
575140	National Low Income Energy Con	211
575140	National Multiple Sclerosis Society	43
575140	United Way of Camden County	1,666
575140	United Way of Greater St Louis	579
575140	Water for People - Denver	4,252
575140	Misc & Adjustments	(167)
<b>575140 Total</b>		<b>7,762</b>

**Account 575141 - Charitable Contributions Non-Deductible**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>
575141	Arts & Business Council of Greater Philadelphia	742
<b>575141 Total</b>		<b>742</b>

**Grand Total Charitable Contributions** **8,505**

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

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**Response to Data Request No. RUCO 2-43 (e)**

**Account 575220 - Community Relations**

<b>Account</b>	<b>Vendor</b>	<b>Explanation</b>	<b>Amount</b>
575220	Alton Marketplace Association	2008 Partnership Sponsor	12
575220	Alton Marketplace Association	Mississippi Earthtones Sponsor	11
575220	Alton Symphony Orchestra-REMIT	Sponsor's Table	9
575220	Arts & Business Council of Greater Philadelphia	Business on Call Sponsorship Fee	654
575220	Biz Books, Inc	Print Ad	3
575220	Business & Industry Association	Sponsor's Table	42
575220	California Chamber of Commerce	Sponsor - Business Legislative Conference	1,509
575220	Cherry Hill American Little League	Sponsor	20
575220	Creative Co-op LLC	Print Ad	14
575220	FedEx Kinko's (Box 672085)	Bottled Water Transportation	1
575220	Grace Media Services	Print Ad	66
575220	Hawk Transport & Courier Service	Bottled Water Transportation	87
575220	Holly Label Company Inc	Bottled Water Labels	63
575220	Identity Links Inc	American Water Logo Giveaways	252
575220	Jackson Brothers	Catering Earthtones Event	1
575220	Langa Resource Group	American Water Logo Giveaways	30
575220	Metro Sports	Volleyball League Sponsor	11
575220	Piasa Foundation	Contribution	47
575220	Pocono Purewater Inc	Bottled Water	155
575220	River Bend Growth Assoc	Sponsor	72
575220	Ronald Mc Donald House	Event Sponsorship	165
575220	San Diego County Tax Payer Association	Sponsor	1,509
575220	The United States Conference of Mayors	Sponsor's Table	126
575220	WHYY	Gold Table Sponsor	316
575220	YMCA	YMCA-CORP CUP PENSACOLA Sponsc	23
575220	Misc & Adjustments		184
<b>575220</b>	<b>Total Community Relations</b>		<b>5,380</b>

**Arizona American Water Company**  
**Docket Nos. W-01303A-09-0343; SW-01303A-09-0343**  
**Service Company - 12 months ended December 2008**

**Response to Data Request No. RUCO 2-43 (f)**

**Account 575030 - Advertising Expenses**

<b>Account</b>	<b>Vendor</b>	<b>Amount</b>	<b>Category</b>
575030	Public Works Financing	594	Corporate
575030	AMER WATER WORK WEB	17	Employment Classifieds
575030	Careerbuilder LLC	769	Employment Classifieds
575030	Jobs2Web	18	Employment Classifieds
575030	Jobs2Web	18	Employment Classifieds
575030	Jobs2Web	54	Employment Classifieds
575030	Rand Consulting Group	121	Employment Classifieds
575030	St Louis Post Dispatch	35	Employment Classifieds
575030	Telegraph -Alton-REMIT	10	Employment Classifieds
575030	Telegraph -Alton-REMIT	18	Employment Classifieds
575030	TMP Worldwide	11	Employment Classifieds
575030	TMP Worldwide	74	Employment Classifieds
575030	TMP Worldwide	76	Employment Classifieds
575030	TMP Worldwide	1,498	Employment Classifieds
575030	Yahoo Hot Jobs	4	Employment Classifieds
575030	Yahoo Hot Jobs	5	Employment Classifieds
575030	Yahoo Hot Jobs	22	Employment Classifieds
575030	Yahoo Hot Jobs	63	Employment Classifieds
575030	Yahoo Hot Jobs	71	Employment Classifieds
575030	AC MOORE ARTS&CRAFT	2	Informational
575030	American Water Works Assoc-AWV	123	Informational
575030	Black EOE Journal	23	Informational
575030	BOXWOODTECH	11	Informational
575030	Creative Co-op LLC	419	Informational
575030	Creative Co-op LLC	431	Informational
575030	Creative Co-op LLC	682	Informational
575030	Creative Co-op LLC	696	Informational
575030	Hispanic Network Magazine	23	Informational
575030	Misc P-Card Transactions	129	Informational
575030	NATIONAL ASSOCIATION OF C	17	Informational
575030	Professional Womens Magazine	23	Informational
575030	Society of Women Engineers NJ	14	Informational
575030	Williams, Kirkpatrick	9	Informational
575030	Hanley Wood LLC	318	Marketing
575030	Hanley Wood LLC	636	Marketing
575030	Naylor LLC	295	Marketing
575030	Identity Links Inc	8	Promotional Items
575030	Langa Resource Group-REMIT	19	Promotional Items
575030	M&N Services LLC	10	Promotional Items
575030	Misc & adjustments	(434)	Misc & adjustments
<b>575030 Total Advertising</b>		<b>6,930</b>	

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
**Title:** Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-91

Page 1 of 2

**Q:** Refer to Mr. Cole's testimony at page 16.

- a. Provide complete details for the 15 year tank painting calculations.
- b. Provide all documents relied upon for the 3 percent CPI factor used.
- c. Does the Company have any current forecasts of CPI or PPI based inflation? If not, explain fully why not. If so, please provide them.
- d. Provide the Company's actual tank painting expense, by district, by year, for the ten year period through 2009. Also indicate which specific tanks were painted in each year, and the cost of painting each tank.
- e. Provide complete copies of the TIC inspection reports.

- A:**
- a. Mr. Cole's testimony refers to tank maintenance in the Sun City Water District. Please refer to Attachment labeled "RUCO 2-91a Tank Painting Calculation.xls" for details.
  - b. In the Company's last rate case, Docket Nos. W-01303A-08-0227; SSW-01303A-08-0227, a five year average for the years 2002 – 2007 of the 12 months percentage change in CPI for All Items was calculated at 2.93%. Mr. Cole likely based his 3% factor on that five year average figure. See workpaper labeled "RUCO 2-91b CPI.xls" for that calculation.
  - c. No. Mr. Cole did not request an updated calculation of the inflation factor for his calculations.
  - d. Please see attachment labeled "RUCO 2-91d Tank Painting Expenditures.xls" for maintenance detail by district. Invoices are also included in this file.
  - e. The TIC inspection reports are attached and labeled "RUCO 2-91 TIC Inspection Report – SC WP 1 Tank #1 (05-23-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 1 Tank #2(05-23-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2Tank #1 (05-22-9).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2Tank #2 (05-22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2 Tank #3 (05-22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 3 Tank #1 (05-20 & 21-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 3 Tank #2 (05-20 & 21-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 5 Tank #1 (05-22-09).pdf", "RUCO 2-91 TIC

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Sheryl L. Hubbard  
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Phoenix, AZ 85027

**Company Response Number:** RUCO 2-91

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Inspection Report – SC WP 5 Tank #2 (05-22-09).pdf”, “RUCO 2-91 TIC  
Inspection Report – SC WP 6 Tank #1 (05-21 & 22-09).pdf”, “RUCO 2-91 TIC  
Inspection Report – SC WP 6 Tank #2 (05-21-09).pdf”, “RUCO 2-91 TIC  
Inspection Report – SC WP 8 Tank #1 (05-20 & 21-09).pdf”, and “RUCO 2-91  
TIC Inspection Report – SC WP 8 Tank #2 (05-20 & 21-09).pdf”.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger/Sheryl L. Hubbard  
**Title:** Rate Analyst/Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 4-1

- Q. Affiliate management fee charges. Please refer to the table below (from a recent California American Water rate case) and provide the equivalent actual 2008 information in similar detail that was used as the basis for the amount of National Service Company and Local Service Company charges reflected in AAWC's current Arizona rate case:

2008	As Filed 2008
Description	
<u>Operating Expenses - Dollars:</u>	
National Service Company	
Service Company - Belleville Laboratory	302,875
Service Company - Call Center	2,802,618
Service Company - Finance	581,351
Service Company - Human Resources	296,649
Service Company - Information Technology	1,786,495
Service Company - "NSC Functions"	1,489,659
Service Company - Operation / Network	267,594
Service Company - Shared Services	1,141,013
Service Company - Procurement	152,311
Subtotal National Service Company	8,820,565
Local Service Company	3,471,949

- A: Please see the attached file labeled "RUCO 4-1 2008 Mgt Fees.xls", which presents AAWC's portion of affiliate management fee charges in a format similar to the one presented in the table above. Furthermore, the Company workpaper "2008 One-Time Adj Mgmt Fees.xls" confirms that the total national and local affiliate management fee charges presented in "RUCO 4-1 2008 Mgt Fees.xls" was used as the basis for all service company adjustments made in AAWC's current filing.

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
2008 Arizona American Service Co. Charges by Office and Function (O&M)

Page 1 of 2

Response to Data Request No. RUCO 4-1

Office	Function	AAWC 2008 O&M Amount	Referenced in California Case
Belleville Lab		202,604	Service Co. - Belleville Lab
Call Center		2,261,581	Service Co. - Call Center
Central Region		34,025	Service Co. - NSC Functions
Corporate	Administration	792,624	Service Co. - NSC Functions
	Audit	60,074	Service Co. - NSC Functions
	Communications	95,820	Service Co. - NSC Functions
	Finance	996,751	Service Co. - Finance
	Human Resources	240,802	Service Co. - Human Resources
	Legal	90,856	Service Co. - NSC Functions
	Operations	171,129	Service Co. - NSC Functions
	Rates & Revenue	87,168	Service Co. - NSC Functions
	Risk Management	102,262	Service Co. - NSC Functions
	Water Quality	79,119	Service Co. - NSC Functions
		<u>2,716,605</u>	
ITS		1,699,939	Service Co. - Information Technology
Northeast Region		13,753	Service Co. - NSC Functions
Shared Service Center		979,417	Service Co. - Shared Services
Southeast Region		37,439	Service Co. - NSC Functions
Supply Chain		145,535	Service Co. - Procurement
Western Region	Administration	692,456	Local Service Company
	Communications	292,909	Local Service Company
	Customer Service	775	Local Service Company
	Engineering	50,588	Local Service Company
	Finance	818,158	Local Service Company
	Human Resources	412,042	Local Service Company
	Legal	402,724	Local Service Company
	Operations	548,196	Local Service Company
	Risk Management	242,738	Local Service Company
	Water Quality	68,650	Local Service Company
		<u>3,529,235</u>	
Total		<u>11,620,134</u>	

Note: The terminology "National Service Company" and "Local Service Company" was used in the California case in an attempt to explain the geographic locations of various Service Company employees and functions. The Service Company has employees at several locations to better meet the needs of the operating companies they serve. Arizona-American receives services from Service Company locations that service all operating companies, as well as employees at other sites that serve smaller groups of companies

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
2008 Arizona American Service Co. Charges by Office and Function (O&M)

Page 2 of 2

Response to Data Request No. RUCO 4-1

Office	Function	AAWC	Service Company Location
		2008 O&M Amount	
Belleville Lab		202,604	National
Call Center		2,261,581	National
Central Region		34,025	Regional
Corporate	Administration	792,624	National
	Audit	60,074	National
	Communications	95,820	National
	Finance	996,751	National
	Human Resources	240,802	National
	Legal	90,856	National
	Operations	171,129	National
	Rates & Revenue	87,168	National
	Risk Management	102,262	National
	Water Quality	79,119	National
		<u>2,716,605</u>	
ITS		1,699,939	National
Northeast Region		13,753	Regional
Shared Service Center		979,417	National
Southeast Region		37,439	Regional
Supply Chain		145,535	National
Western Region	Administration	692,456	Regional
	Communications	292,909	Regional
	Customer Service	775	Regional
	Engineering	50,588	Regional
	Finance	818,158	Regional
	Human Resources	412,042	Regional
	Legal	402,724	Regional
	Operations	548,196	Regional
	Risk Management	242,738	Regional
	Water Quality	68,650	Regional
		<u>3,529,235</u>	
<b>Total</b>		<b>11,620,134</b>	
Total National		8,005,682	
Total Regional		3,614,453	
		<b>11,620,134</b>	

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger/Sheryl L. Hubbard  
**Title:** Rate Analyst/Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 4-3

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Q: Please identify, quantify and explain all expenses included in the Company's filing, by AAWC district, for each of the following types of affiliated Service Company (National, Regional and Local) charges and functions:

- Business Development Expense
- Corporate Contributions
- Legislative Influence Expense
- "Non-Departmental" & "NSC Functions" Expense
- "Non Departmental" Interest Income and Income Tax
- Sales and Marketing Expense
- Payroll Reserve
- Call Center
- Divestiture Support
- Depreciation
- Interest Income Outside
- Interest Cap Lease-AW21
- Penalties
- Trade Shows
- Injuries and Damages
- Relocation
- Research & Development
- Advertising
- Contract Services-Legal
- Contract Services-Litigation
- Contract Services-Other
- Expat Labor
- Incentive Plan
- Long Term Incentive Plan
- Retention/Completion
- Group Insurance
- Expat Group Insurance
- PBOP
- Pension
- Expat Pension
- Corporate PBOP Adjustment
- Corporate Pension Adjustment
- Employee Expenses
- Conferences & Registrations

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger/Sheryl L. Hubbard  
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**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 4-3

Page 2 of 2

- A: Please see the attached file labeled "RUCO 4-3 SC Charges-detail.xls". Upon review of Company workpaper "2008 Other Expense Pro Forma Adjustment.xls", a minor error was detected in the calculation of this adjustment. Rather than beginning with the actual test year adjusted Other Expenses related to Service Company Charges (which removes the effect of one-time charges), the adjustment was calculated without removing one-time charges associated with Other Expenses. The effect of this error was to overstate the amount shown on Line 8 of Adjustment MHK-4, Adjust Management Fees for Other Expense Increases by \$3,240 (the \$170,388 amount should be \$167,148). The amount on Line 8 is then allocated to each district using the 4-Factor allocation percentage to determine the district-specific pro forma adjustment, the effect on the overall revenue requirement for the case is only \$1,550. All associated schedules and workpapers will be updated to reflect this correction in the rebuttal stage of this case.

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Arizona American 2003 Service Co. Charges by Location and Selected Object Accounts (O&M)

Response to Data Request No. RU00 4-3

RU00 Line	Object Account	Obj Acct Description	Belleville Lab National	One Time Expense Removals	Call Center National	One Time Expense Removals	Central Region Regional	One Time Expense Removals	Corporate National	One Time Expense Removals	ITS National	One Time Expense Removals	Northeast Region Regional	One Time Expense Removals	Shared Services National	One Time Expense Removals	Southeast Region Regional	One Time Expense Removals	Supply Chain National
2	575140	Charitable Contributions Deductible		213					7,376										
2	575141	Charitable Contributions Nondeductible																	
5	690110	Fit-Current	(5,961)		(50,443)		(846)		(85,207)		(74,279)		(144)		(2,854)		(278)		(200)
5	690120	Fit-Prior Year Adjustment	(3,932)		(33,268)		(558)		(46,398)		(46,398)		(93)		(1,692)		(183)		(132)
5	690220	ST-Current		5	42		1		73		61		0		2		0		0
5	690230	ST-Prior Year Adjustment			(634)		(14)		(1,457)		(1,235)		0		(47)		(5)		(8)
5	690610	Def-Current	392		339		1		1,503		1,285		2		69		5		3
5	690620	Def-Current	3,833		32,331		357		58,110		48,935		95		1,880		183		132
5	690630	Def-Current	3,857		32,351		122		12,679		10,677		21		410		40		29
5	690640	Def-Current	4,818		40,772		684		71,206		60,098		117		2,307		225		161
5	690710	Def-Current	(11)		(8)		(6)		(9)		(8)		3		(0)		(0)		(6)
5	690720	Def-Current	106		894		15		1,563		1,316		0		51		5		4
5	690730	Def-Current	(42)		(357)		(6)		(624)		(526)		(1)		(20)		(2)		(1)
7	501200	Labor	55,366		1,094,065		3,847		680,432		615,654		2,815		598,221		9,796		92,778
10	680110	Depreciation Exp-General	12,985		109,875		1,843		192,132		161,795		314		6,216		606		435
10	680112	Depreciation Exp-Non Utility	6,643		56,210		943		98,290		82,771		161		3,180		310		223
11	710400	Interest Income-Outside																	
11	710500	Interest Income-Inside			(5,337)		(90)		(9,333)		(7,859)								
12	810301	Interest Cap Lease-AW02	33,747		42,112		706		73,643		62,011		120		2,382		232		167
13	575640	Penalties Nondeductible	6		54		(114)		1,037		80		0		3		0		0
14	575775	Trade Shows			219				10,389		(217)								
15	575490	Injuries and Damages					1,323		11,268		3,572				123		167		1
16	575670	Relocation Expenses			1,581				5,876						2,264				
18	575030	Advertising	97		814				19,472										
19	533000	Contract Services-Legal			5,475														
20	533001	Contract Services-Litigation																	
21	535000	Contract Services-Other																	
23	507111	Incentive Plan-Off-Annual																	
24	507112	Incentive Plan-Off-Long Term																	
25	507115	Retention/Completion																	
26	508100	Group Ins Maintenance																	
28	505100	POLUP	8,793		162,614		6,972		92,984		69,587		2,866		83,093		1,654		10,170
28	505101	Pension	2,125		32,596		1,380		107,218		14,081		580		16,523		330		2,023
28	505102	Pension	6,119		116,572		4,947		75,496		50,487		2,117		59,557		1,183		7,257
28	575340	Employee Expense P/R IE			16,243		(77)		40,714		28,484		(438)		7,806		4,952		184
28	575342	Employee Exp Conf/Registration	88		1,294				7,053		152				759				
34	Total		129,367		1,836,615		24,449		2,103,499		1,234,301		9,619		859,371		18,267		128,991
	All Other Categories		73,238		438,661		9,575		62,876		465,639		4,134		120,047		19,172		16,544

Adjustments:

Call Center adjusting entry	(13,695)
Reversal of 2007 Tax and Depreciation entry	(14,709)
Total	73,238

Note: Included in the above totals are business development and research expenses of:

Business Development Expenses	
CE-Business Development	752
CORP-Corporate Bus Development	30,331
NE-Business Development	51
SE-Business Development	184
WE-Business Development	69,480
Total Business Development Expenses	100,799
Research and Development Expenses	
CORP-Research & Env Excellence	79,119
Total Research and Development Expenses	79,119



**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger/Sheryl L. Hubbard  
**Title:** Rate Analyst/Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 4-5

Page 1 of 2

Q: Please provide actual charges from AWWSC to AAWC for each year 2007, 2008 and 2009 (preferably in Excel) for each of the following Service Company "objects":

LABOR RELATED

501200 Labor  
501203 Internal Labor Recharge  
501205 Expat Labor  
501711 Incentive Plan  
501712 Long Term Incentive Plan  
501715 Retention/Completion  
504100 Group Insurance  
504105 Expat Group Insurance  
505100 PBOP  
506100 Pension  
506105 Expat Pension  
507100 401K  
508100 EIP  
508101 DCP Oper AG  
685320 FUTA  
685325 FICA  
685350 SUTA  
TOTAL LABOR & LABOR RELATED EXPENSES

OTHER EXPENSES

504500 Other Welfare  
504610 Employee Awards  
504620 Employee Physical Exams  
504660 Tuition Aid  
504670 Training  
531000 Contract Services-Engineering  
532000 Contract Services-Accounting  
533000 Contract Services-Legal  
533001 Contract Services-Litigation  
535000 Contract Services-Other  
535001 Contract Services-Temp Employee  
535002 Contract Services-STEP Backfill  
536000 Contract Services-Lab Testing  
541000 Rents-Real Property  
541400 Rents-Equipment  
550000 Transportation  
550001 Transportation-Lease Cost  
550002 Transportation-Lease Fuel  
550003 Transportation-Lease Maintenance  
556000 Insurance-Vehicle  
557000 Insurance-General Liability  
558000 Insurance-Work Comp  
559000 Insurance-Other

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Miles H. Kiger/Sheryl L. Hubbard  
**Title:** Rate Analyst/Manager, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 4-5

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575000 Miscellaneous  
575002 Misc General Office  
575030 Advertising  
575100 Bank Service Charges  
575130 Brochures & Handouts  
575140 Charitable Contribution-Deductible  
575220 Community Relations  
575280 Dues & Memberships Deduct  
575320 Electricity  
575340 Employee Expenses  
575342 Conferences & Registrations  
575350 Meals & Travel Deduct  
575351 Meals & Travel NonDeduct  
575420 Forms AG  
575460 Ground keeping  
575480 Heat - Oil & Gas  
575490 Injuries and Damages  
575500 Janitorial  
575620 Office Supplies  
575625 Overnight Shipping  
575640 Penalties  
575660 Postage  
575670 Relocation  
575680 Research & Development  
575710 Security  
575715 Software & License Support  
575740 Telephone  
575741 Cell Phones  
575742 Data Lines  
575775 Trade Shows  
575780 Trash Removal  
675000 Maintenance Misc  
675250 Maintenance Computer Equip  
675350 Maintenance HVAC  
675450 Maintenance Office Equip  
685200 Property Taxes  
685430 Other Taxes & Licenses  
TOTAL OTHER EXPENSES  
  
680110 Depreciation  
710400 Int Income Outside  
810301 Int Cap Lease-AW21  
810400 Int LTD-Inside  
830000 Interest on STD  
840000 Other Interest

A: Please see the attached file labeled "RUCO 4-5 AWWSC to AZAM 2007-2009.xls".

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Arizona American Service Co. Charges by Object Account (O&M)

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Response to Data Request No. RUCO 4-5

Object Acct	Account Description	Year		
		2007	2008	2009
Labor & Labor Related				
501200	Labor	4,618,262	4,829,431	4,967,989
501203	Labor Internal Recharge	2,672	42,930	(43,126)
501205	Labor Expatriots	6,215		
501711	Incentive Plan-Off-Annual	408,218	500,056	544,458
501712	Incentive Plan-Off-Long Term	178,534	30,538	
501715	Retention/Completion	184,821	58,456	
504100	Group Ins Maintenance	707,749	683,058	722,645
505100	PBOP	111,438	137,062	195,606
506100	Pension	489,857	491,541	911,692
507100	401k	84,270	96,589	97,284
508101	Defined Contribution Plan	57,448	90,124	98,652
508200	Employee Stock Purchase Plan		3,671	8,408
685320	FUTA	6,103	4,997	3,482
685325	FICA	329,352	382,018	368,798
685350	SUTA	33,584	25,414	19,245
	Other Labor and Labor Related	-	73,262	324,281
	Total Labor and Labor Related	7,218,523	7,449,148	8,219,414

**Other Expenses**

504500	Other Welfare Maintenance	108,693	120,089	276,104
504610	Employee Awards	23,379	13,498	9,383
504620	Employee Physical Exam	416	523	678
504660	Tuition Aid	14,241	15,935	19,086
504670	Training	65,811	72,506	38,856
504671	Training-Safety	23,257	20,587	20,309
531000	Contract Services-Engineering	22,708	40,441	37,858
532000	Contract Services-Accounting	28,236	35,878	8,840
533000	Contract Services-Legal	22,614	26,187	23,500
533001	Contract Services-Litigation	-	-	(1)
535000	Contract Services-Other	1,863,608	1,008,442	575,986
535001	Contract Services-Temp Employee	200,075	87,835	50,374
535002	Contract Services-STEP Backfill	0		
536000	Contract Services-Lab Testing	235	(5,067)	(13,738)
541000	Rents-Real Property	268,874	241,141	196,642
541001	Rents-Real Property Intercompany	79,455	72,234	115,994
541400	Rents-Equipment	26,952	18,106	12,653
541401	Rents-Equipment Intercompany			3,628
550000	Transportation IT-Admin	20,783	18,604	24,647
550001	Transportation Lease Cost	21,807	10,245	9,400
550002	Transportation Lease Fuel	11,717	4,255	3,063
550003	Transportation Lease Maintenance	5,330	2,784	1,350
556000	Insurance Vehicle			477
557000	Insurance Gen Liability	(7,717)	33,905	74,852
558000	Insurance Work Comp	14,355	27,509	23,708
559000	Insurance Other	69,826	52,216	23,885
575000	Miscellaneous	5,312	(11,732)	2,053
575002	Misc General Office	17,679	20,778	31,343
575030	Advertising	7,902	6,930	6,368
575100	Bank Service Charges	401	17	183
575130	Brochures and Handouts	5,387	2,646	1,148
575140	Charitable Contributions Deduct	11,306	7,762	6,430
575141	Charitable Contributions Nondeductible	8	742	83
575220	Community Relations	9,951	5,380	1,656
575240	Co Dues/Membership Deduct	3,136	3,267	2,616
575241	Co Dues/Membership Nondeductible	516	2,022	632

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Arizona American Service Co. Charges by Object Account (O&M)

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Response to Data Request No. RUCO 4-5

Object Acct	Account Description	Year		
		2007	2008	2009
575242	Co Dues Deduct AWWA	540	39	91
575280	Dues/Membership Deductible	17,027	15,154	22,575
575281	Dues/Membership Nondeductible	25	52	7
575320	Electricity	50,435	49,516	45,829
575340	Employee Expense P/R JE	253,269	271,653	231,471
575342	Employee Exp Conf/Registration	22,064	24,183	19,297
575350	Meals Deduct	28,116	26,761	20,859
575351	Meals Non Deduct	28,188	27,139	20,402
575420	Forms	1,331	1,845	1,067
575460	Grounds Keeping	1,943	2,064	387
575480	Heat - Oil/Gas	5,551	5,929	2,562
575490	Injuries and Damages		219	
575500	Janitorial	17,495	19,375	13,984
575620	Office & Admin Supplies	60,629	72,671	72,239
575625	Overnight Shipping	19,294	19,274	13,928
575640	Penalties Nondeductible	(2,167)	1,112	498
575660	Postage	10,422	13,648	12,797
575670	Relocation Expenses	122,985	54,279	89,512
575680	Research & Development Exp	338		18
575710	Security Service	12,935	12,873	4,107
575715	Software Licenses & Support	37,834	34,553	37,053
575740	Telephone	155,905	166,848	98,883
575741	Cell Phone	32,144	41,447	34,027
575742	Data Lines	31,621	33,727	61,903
575775	Trade Shows	12,553	10,122	6,017
575780	Trash Removal	1,701	2,035	1,744
675000	Misc Maintenance	245,168	230,027	277,274
675250	Comp Equip Hardware	18,035	3,972	3,655
675350	HVAC Equipment	7,773	7,101	4,683
675450	Office Equipment	645	460	195
685200	Property Taxes	16,482	17,926	3,300
685430	Other Taxes and Licenses	(2,590)	1,143	381
	Misc Other Expenses	3,609	(27,901)	50,630
	<b>Total Other Expenses</b>	<b>4,157,551</b>	<b>3,094,910</b>	<b>2,741,421</b>
680110	Depreciation Exp-General	531,965	576,067	
680112	Depreciation Exp-Non Utility		294,703	923,803
710400	Interest Income-Outside	(157,968)	-	
710500	Interest Income-Inside		(27,983)	(571)
810300	Interest Cap Lease-Outside			99
810301	Interest Cap Lease-AW02	252,459	261,533	215,754
810400	Interest LTD-Inside	21,848		
830000	Interest on ST Debt-Outside	(0)		
830100	Interest STD Inside			2,465
840000	Other Interest Expense	2,696	220	2,602
	<b>Total Depreciation &amp; Interest</b>	<b>651,000</b>	<b>1,104,540</b>	<b>1,144,154</b>
	<b>Total before Adjustments</b>	<b>12,027,074</b>	<b>11,648,599</b>	<b>12,104,988</b>
	<b>Adjustments</b>			
	2007 Depreciaton & Tax Adjustment Entry	14,769		
	2008 Reversal of Depreciation & Tax Entry		(14,769)	
	2008 Call Center Adjustment		(13,695)	
	<b>Total</b>	<b>12,041,842</b>	<b>11,620,135</b>	<b>12,104,988</b>

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-59

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**Q:** Service Company pension and OPEB charges.

- a. Provide the amount of actual AWWSC charges to AzAWC for pensions each year from 2005 through 2009.
- b. Provide the amount of actual AWWSC charges to AzAWC for OPEBs each year from 2004 through 2009.
- c. Has any examination ever been conducted regarding whether and how AWWSC's funding for pensions and OPEBs has minimized costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.
- d. Has AWWSC ever examined converting its defined benefit pension plan to some other type of retirement benefit in order to help control costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

**A:**

- a. Please see attachment labeled "RUCO 2-59a&b Pension & OPEB Attachment".
- b. Please see attachment labeled "RUCO 2-59a&b Pension & OPEB Attachment".
- c. A comprehensive asset and liability study to determine the best mix of investments for the plans was conducted by Callan in 2008. The study evaluated the interaction of the three key policies that govern a pension plan with the goal of establishing the best investment policy:
  - 1) Investment Policy – How will the assets supporting the benefits be invested, what are the risk/return objectives, and how to manage cash flows.
  - 2) Benefits Policy – What type/kind of benefits, what level of benefit, and when and to whom they are payable.
  - 3) Funding/Accounting Policy – How will the benefits be paid for (funded), what actuarial discount rate, how will deficits be paid for, and how will costs be recognized.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-59

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Based on the results of the asset and liability study the plan's target asset allocation is 36% large cap equities, 22% international equities, 12% small cap equities, and 30% domestic fixed-income securities. Attached are three reports comprising the comprehensive study.

- d. Yes. The defined benefit pension plan was closed to new participants in 2006, with the exception of union employees at the two customer service centers, thus beginning the process of shifting investment risk from the Company to the employees.

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Arizona Service Company Pension and OPEB charges 2005 - YTD November 2009

Response to Data Request No. RUCO 2-59 (a)&(b)

Account	Description	12 months 2005			12 months 2006			12 months 2007			12 months 2008			12 months 2009		
		CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total
505100	OPEB	29,024	116,116	145,139	37,871	136,162	174,033	15,890	111,438	127,328	13,100	138,280	151,380	20,382	178,736	199,118
506100	Pension	23,326	78,757	102,083	100,747	1,624,692	1,725,439	69,871	489,857	559,728	46,979	495,909	542,888	94,998	833,065	928,064

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Thomas M. Broderick  
**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Rd., Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 2-61

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**Q:** Please provide full details of all Service Company charges to AzAWC in each year 2005 through 2009.

**A:** Please see attachments labeled "RUCO 2-61 AZAWC Service Co Charges Attachment-Revised.xls" and "RUCO 2-61 AZAWC Service Co Charges-Updated thru Dec 2009.xls".

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Monthly Service Company Charges by Object Account  
12 Months ending December 2005

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	218,139	230,144	330,715	214,134	225,694	246,946	251,394	296,514	265,181	251,619	286,840	297,505	3,114,824
501205	Labor Expts				71,398	27,522	11,958	14,272	20,108	(50,135)	3,226	5,430	7,161	110,939
501711	Incentive Plan-Off-Annual	38,514	10,145	(15,229)	25,626	15,727	183,395	30,067	30,045	29,203	29,434	28,544	45,412	450,883
501712	Incentive Plan-Off-Long Term	2,055	2,135	1,866	1,568	1,637	1,673	1,885	1,884	1,775	1,672	1,843	14,013	34,005
504100	Group Ins Maintenance	38,835	39,676	35,765	29,648	30,961	32,432	35,732	35,737	33,384	31,164	34,837	49,487	427,659
504500	Other Welfare Maintenance	15,528	657	25,792	24,802	48,670	(11,859)	12,378	9,652	19,870	4,448	57,730	98,038	305,705
504610	Employee Awards	310	1,306	782	242	29	257	549	312	63	419	12	687	4,265
504620	Employee Physical Exam	16		742	12	80		256	45		95	39	45	1,330
504660	Tuition Aid	1,769	204	713	890	111	1,009	284	3,327	664	745	1,161	660	11,538
504670	Training	9,903	10,750	2,189	9,222	(721)	1,624	4,123	5,121	5,121	3,673	5,487	6,477	59,818
505100	PBOP	8,911	9,261	8,092	6,800	7,102	7,255	8,175	8,170	7,699	7,250	7,994	11,288	97,995
506100	Pension	8,905	8,356	8,689	6,735	7,352	7,138	8,077	8,219	9,689	5,498	9,045	9,175	96,878
507100	401K	3,997	4,148	3,623	3,047	3,189	3,251	3,662	3,660	3,449	3,248	3,581	5,059	43,914
508100	Employee Investment Plan	1,371	1,425	5,316	1,048	1,093	1,120	1,258	1,257	1,185	1,116	1,230	1,737	19,154
515100	Purchased Power	1,139	944	878	901	738	1,045	1,563	2,483	3,063	2,170	2,230	2,719	19,872
520100	Materials & Supplies Operations	48	44	38	61	110	83	339	316	1,003	1,734	1,117	1,521	6,414
531000	Contract Services-Engineering		(113)			15					1,955	3,960	16,661	36,013
532000	Contract Services-Accounting	1,339	278	43	17	20		23	31	11,271			5,956	17,613
533000	Contract Services-Legal	1,224	1,769	191	3,043	2,359	1,256	203	793	44	615	119		245
533001	Contract Services-Litigation					245								
534000	Contract Services-Mgmt							1						1
535000	Contract Services-Other	14,742	75,030	111,754	105,061	59,777	39,457	71,382	105,336	95,466	41,951	97,519	164,079	981,554
535001	Contract Services-Temp Employee	911	8,726	3,825	8,100	14,223	16,469	15,437	16,441	21,679	6,386	24,802	36,920	173,918
535002	Contract Services-STEP Backfill	133	272	1,247	1,863	2,225	1,680	2,392	1,617	2,589	1,176		1,231	16,423
536000	Contract Services-Lab Testing	20	1	157	190		9	(5)	4					376
541000	Rents-Real Property	18,880	10,816	33,002	22,586	16,850	14,656	13,436	15,044	17,571	14,147	16,089	20,687	213,763
541400	Rents-Equipment	10,390	16,999	3,429	11,232	5,461	7,204	2,831	3,248	5,736	2,637	3,486	3,853	76,506
550000	Transportation IT-Admin	346	1,801	1,990	1,759	284	2,366	1,668	1,752	1,722	325	1,692	1,793	17,478
550001	Transportation Lease Cost	637	675	535	344	390	356	464	649	975	556	679	807	7,068
550002	Transportation Lease Fuel	175	157	112	88	97	93	117	161	246	149	173	203	1,770
550003	Transportation Lease Maintenance	244	282	218	179	212	181	253	752	521	283	345	415	3,884
556000	Insurance Vehicle		0											1
557000	Insurance Gen Liability	1,123	1,154	638	823	940	858	1,118	1,484	2,344	1,339	1,637	1,933	15,391
558000	Insurance Work Comp	656	674	373	481	549	501	653	867	1,369	782	956	1,129	8,991
559000	Insurance Other	314	323	178	230	263	240	313	415	655	375	467	541	4,314
575000	Miscellaneous	5,604	7,700	7,010	5,825	1,513	7,220	7,738	(781)	11,749	5,655	9,122	14,311	82,668
575002	Misc General Office	688	266	1,055	800	478	1,358	1,531	213	4,714	580	5,839	420	18,003
575030	Advertising	(122)	3,215	1,654	205	1,268	2,192	1,295	1,284	620	605	4,705	8	16,930
575100	Bank Service Charges	(4)	22	1	(19)		0			(0)		(38)		(37)
575130	Brochures and Handouts		61		17		1	707	112		4	90	4	996
575140	Charitable Contributions Deduct	1,126	8	2		2		267	448	38	(1,719)	641	240	1,054
575141	Charitable Contributions Nondeductible									344		1,837		2,181
575220	Community Relations	(310)	847	2,235	1,147	5,550	12,978	(568)	179	53	17	10,842	3	32,973
575240	Co Dues/Membership Deduct	3,222	6	128	42	5,599	198	32	9,877	3,164	(9,974)	33	5,482	17,809
575241	Co Dues/Membership Nondeductible		1,424											1,424
575260	Credit Line Fees													
575280	Dues/Membership Deductible	54	917	389	3,234	491	327	816	1,011	305	1,273	53	984	9,854
575281	Dues/Membership Nondeductible	7	20	20	1,105	3		396	6	1	(0)		136	1,674
575320	Electricity	29	(824)	17	21	42	22	46	88	61	35	42	50	(371)
575340	Employee Expense P/R IE	14,171	16,016	22,323	29,759	14,861	32,184	31,233	29,921	31,863	17,064	36,203	41,804	317,402
575342	Employee Exp Conf/Registration	(457)	477	202	1,585	394	545	1,107	369	3,047	985	1,562	2,679	12,496
575350	Meals Deduct	1,232	2,082	1,992	2,027	1,114	2,685	3,253	1,948	2,207	1,639	2,883	3,567	26,628
575351	Meals Non Deduct	1,232	1,611	2,748	2,028	1,096	2,745	3,361	1,976	2,233	1,459	2,664	3,600	26,754
575400	Bus Services Project Exp				5			33	1	10		3	6	58

Arizona American Water Company  
Docket Nos. W-01303A-09-0343, SW-01303A-09-0343  
Monthly Service Company Charges by Object Account  
12 Months ending December 2005

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575420	Forms	0	305	0	1,238	1,158	0	0	25	1	312	59	120	3,220
575460	Grounds Keeping	154	152	86	107	120	133	141	228	318	171	227	267	2,105
575480	Heat - Oil/Gas	187	777	459	745	762	261	166	412	491	285	345	412	5,304
575500	Janitorial	821	1,356	766	939	924	1,066	1,002	1,315	1,660	977	1,159	1,426	13,411
575620	Office & Admin Supplies	71,453	3,891	(61,743)	3,726	4,297	4,489	4,457	5,626	5,614	4,378	5,118	2,142	53,448
575625	Overnight Shipping	1,380	1,090	942	905	887	968	749	1,004	1,285	717	1,159	1,301	12,388
575640	Penalties Nondeductible	315	77	70	7	(49)	178	2	1	138	1	(12)	127	854
575660	Postage	2,980	582	1,036	666	397	1,169	1,287	698	618	347	1,179	501	11,461
575670	Relocation Expenses	1,839	3,163	1,663	37	12,855	4,635	(222)	26,351	4,944	5,789	(2,148)	628	63,507
575680	Research & Development Exp													2,883
575710	Security Service	556	749	977	92	492	599	603	886	1,100	590	718	897	8,259
575715	Software Licenses & Support		177	119		91	100	8	12	164	245	445	551	1,913
575740	Telephone	1,585	11,169	11,881	9,891	11,325	8,332	7,992	12,632	18,003	12,675	12,826	21,686	139,998
575741	Cell Phone	1,477	2,424	896	1,521	3,487	2,310	2,162	1,538	3,166	2,589	3,663	3,005	28,238
575742	Data Lines		6,947	3,048	1,207	6,338	59	5,096	2,382	5,067	903	1,899	10,102	43,048
575743	Wireless Service 1st	2,661	1,150	248	42	8	439	582	986	1,078	1	87	61	7,342
575775	Trade Shows											1		1
575776	Translation FC											94	120	1,272
575780	Trash Removal	59	103	42	186	58	121	73	(43)	379	79			
575996	STEP Admin Charges													
575998	PCard Undistributed	68	17,666	19,859	6,104	(2,009)	823	1,480	1,914	11,589	(56)	582	32,292	90,312
620000	Materials & Supplies Maintenance	9	10	5	7	8	7	9	12	20	11	14	16	128
675000	Misc Maintenance	5,215	654	4,478	1,112	4,729	902	3,213	2,658	5,602	3,978	2,751	3,975	39,267
675250	Comp Equip Hardware	2,817	27,900	6,207	3,705	4,800	13,520	3,543	5,969	9,141	6,668	17,151	12,210	113,630
675350	HVAC Equipment	165	170	94	278	138	136	165	218	345	197	241	284	2,431
675450	Office Equipment	3	3	1	2	2	2	17	3	5	3	4	4	49
680110	Depreciation Exp-General	18,655	19,184	10,601	13,680	15,627	14,251	18,585	24,654	38,949	22,255	27,198	32,126	255,763
685200	Property Taxes	943	969	536	691	790	720	939	1,246	1,968	1,125	1,374	1,623	12,923
685320	FUTA	313	326	285	239	250	255	288	287	271	255	281	397	3,447
685325	FICA	21,342	22,147	19,401	16,275	16,987	17,350	19,550	19,539	18,412	17,339	19,119	27,124	234,585
685350	SUTA	1,764	1,833	1,602	1,347	1,406	1,436	1,618	1,618	1,524	1,435	1,583	2,235	19,402
685430	Other Taxes and Licenses	9,565	15,166	5,347	7,540	1,139	1,574	3,227	2,334	3,747	297	4,520	3,361	57,815
690110	FIT-Current	5,762	5,926	3,274	4,225	4,827	4,402	5,741	7,615	12,031	6,874	8,401	9,923	79,001
690120	FIT-Prior Year Adjustment	5,535	5,692	3,145	4,059	4,637	4,228	5,514	7,315	11,557	6,603	8,070	9,532	75,887
690210	SIT-Current	1,262	1,298	717	925	1,057	964	1,257	1,668	2,635	1,506	1,840	2,173	17,302
690220	SIT-Prior Year Adjustment	1,371	1,410	779	1,006	1,149	1,048	1,366	1,813	2,863	1,636	2,000	2,362	18,803
690620	Def FIT-Pr Yr Adjustment	(5,535)	(5,692)	(3,145)	(4,059)	(4,637)	(4,228)	(5,514)	(7,315)	(11,557)	(6,603)	(8,070)	(9,532)	(75,887)
690640	Def FIT-Norm Depreciation	(1,367)	(1,406)	(777)	(1,003)	(1,145)	(1,044)	(1,362)	(1,807)	(2,854)	(1,631)	(1,993)	(2,354)	(18,744)
690650	Def FIT-Other	(3,188)	(3,278)	(1,812)	(2,338)	(2,671)	(2,435)	(3,176)	(4,213)	(6,656)	(3,803)	(4,648)	(5,490)	(43,709)
690720	Def SIT-Pr Yr Adjustment	(1,375)	(1,414)	(781)	(1,008)	(1,152)	(1,051)	(1,370)	(1,817)	(2,871)	(1,641)	(2,005)	(2,368)	(18,854)
690750	Def SIT-Other	(947)	(974)	(538)	(685)	(793)	(724)	(944)	(1,252)	(1,978)	(1,130)	(1,381)	(1,631)	(12,986)
710500	Interest Income-Inside	(88)	(91)	(50)	(65)	(74)	(67)	(88)	(116)	(184)	(105)	(128)	(152)	(1,207)
760100	Donations Deduct		32											32
760500	Non-Op Employee Exp Deduct										7	(7)		-
760600	Non-Op Employee Exp Nondeductible	8,171	5,408	9,394	6,956	7,533	7,301	8,520	10,166	14,138	9,365	10,693	12,132	109,778
810400	Interest LTD-Inside	(1,961)	(2,017)	(1,114)	(1,438)	(1,643)	(1,498)	(1,954)	(2,592)	(4,094)	(2,339)	(2,859)	(3,377)	(26,885)
830000	Interest on ST Debt-Outside													
840000	Other Interest Expense		24	(6)	1	(44)	(4)	9	16	131	(4)	6	48	187
<b>Total O&amp;M Expenses</b>		581,019	615,506	646,148	678,776	599,636	718,304	623,188	742,929	702,574	530,109	787,080	1,054,749	8,280,019
<b>Capitalized Expenses</b>		35,799	207,711	19,724	367,553	205,153	215,030	255,357	160,918	169,785	261,410	182,440	153,673	2,238,554
<b>Total Service Company Charges</b>		616,818	823,218	665,872	1,046,329	808,790	933,334	878,545	903,847	872,359	791,520	969,520	1,208,422	10,518,573

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	310,178	255,583	319,207	297,345	285,620	363,859	298,684	281,521	397,087	306,580	395,048	322,801	3,833,513
501205	Labor Expts	(1,438)	14,927	15,400	(73)	28,301	4,439	4,153	9,616	4,341	4,997	414	(866)	84,213
501711	Incentive Plan-Off-Annual	29,348	29,544	31,565	31,659	17,332	62,318	27,801	6,088	47,179	23,479	40,177	9,871	356,201
501712	Incentive Plan-Off-Long Term	0	0	0	0	0	2,727	5,754	5,754	3,524	5,647	5,647	214,114	243,166
501715	Retention/Completion	0	0	0	0	0	104,558	18,103	17,666	22,952	18,253	18,253	13,694	214,479
504100	Group Ins Maintenance	39,870	46,830	50,825	43,891	67,854	18,035	43,496	37,624	51,614	43,258	45,184	46,624	535,104
504500	Other Welfare Maintenance	(63,733)	126,649	44,814	12,931	28,020	31,604	8,261	14,136	18,748	8,299	6,747	93,160	329,635
504610	Employee Awards	(453)	5,881	12	156	98	1,664	1,242	708	304	66	1,380	600	11,657
504620	Employee Physical Exam	262	73	49			255		23			1	160	824
504660	Tuition Aid	1,243	817	863	347	775	767	1,064	344	1,029	596	747	1,219	9,809
504670	Training	11,426	7,752	6,295	6,258	2,340	1,402	3,977	2,979	4,674	3,843	9,046	3,157	63,149
504671	Training-Safety				1,583	1,686	3,711	1,731	2,260	2,650	2,598	-	1,686	17,564
505100	PBOP	8,807	11,684	12,746	11,205	17,507	4,304	11,204	10,300	13,515	11,060	11,695	12,135	136,162
506100	Pension	21,666	31,327	35,545	28,875	43,183	12,206	29,004	26,235	34,025	28,862	29,583	1,304,179	1,624,689
507100	401k	3,418	4,516	4,929	4,492	7,008	2,069	4,714	4,427	5,902	4,934	5,291	5,584	57,283
508100	Employee Investment Plan								55					55
508101	Defined Contribution Plan	35	206	398	822	1,193	818	1,030	1,056	2,375	1,778	1,935	1,952	13,598
515100	Purchased Power	427	2,022	458	45	(3,751)	(0)	0	0	799	0	0	0	(0)
520100	Materials & Supplies Operations	286	231	105	176	31	355	9	82	59	17	240	203	1,794
531000	Contract Services-Engineering		4,567											736
532000	Contract Services-Accounting	(7,567)	9,766	19,528	(8)	12	(8)	3,081	(9)	420	3,622	(8)	736	6,770
533000	Contract Services-Legal	1,536	1,713	2,990	1,791	(461)	5,154	1,037	4,142	5,083	3,359	859	7,683	34,947
533001	Contract Services-Litigation				247					55	833			34,885
535000	Contract Services-Other													247
535001	Contract Services-Temp Employee	14,649	115,369	34,207	70,550	131,530	113,309	77,028	83,609	206,646	126,256	121,125	182,917	1,277,196
535002	Contract Services-STEP Backfill	(1,808)	61,495	50,967	34,893	84,583	39,709	(90,208)	12,403	14,892	6,939	22,429	15,029	251,323
536000	Contract Services-Lab Testing	79	89	121	90	218	95	134	112	235	212	151	219	625
541000	Rents-Real Property	49,171	22,877	20,743	37,977	17,846	16,714	23,003	20,301	25,302	19,109	18,353	3,799	1,757
541400	Rents-Equipment	2,058	2,247	2,252	2,254	2,250	2,581	3,531	2,250	3,878	2,284	2,405	4,525	275,134
550000	Transportation IT-Admin	2,488	1,804	1,593	208	2,579	1,265	1,472	1,339	1,530	1,296	1,477	1,654	33,180
550001	Transportation Lease Cost	1,273	1,444	1,334	1,440	2,245	1,532	2,036	1,503	2,472	1,646	1,447	1,654	18,705
550002	Transportation Lease Fuel	572	642	612	639	1,014	637	920	678	1,171	745	657	835	20,218
550003	Transportation Lease Maintenance	243	274	261	272	438	270	392	287	469	317	279	355	9,122
557000	Insurance Gen Liability	1,185	1,338	1,274	1,390	2,113	1,310	1,917	1,405	2,294	1,550	1,362	1,734	3,858
558000	Insurance Work Comp	451	510	485	506	805	499	730	535	874	590	519	660	18,810
559000	Insurance Other	2,484	2,805	2,671	2,788	4,429	2,747	4,020	2,945	4,810	3,249	2,856	3,635	7,165
570100	Uncollectible Accounts													39,439
575000	Miscellaneous	729	(6,911)	(3,720)	(13,515)	389	2,553	2,648	(6,100)	(444)	1,649	4,052	22,905	22,905
575002	Misc General Office	385	1,504	2,347	339	4,480	1,336	3,261	2,856	6,025	804	568	8,146	23,433
575030	Advertising	253	1,989	3,231	854	381	1,412	88	594	37	195	522	1,152	4,765
575100	Bank Service Charges					140			0	5	212			32,151
575130	Brochures and Handouts	14	5	169	39	194	322	36	57	67	104	57	87	10,807
575140	Charitable Contributions Deduct	2,709	2	2,425	190		2,130	65	87	191	109	234	2,001	357
575141	Charitable Contributions Nondeductible													1,151
575220	Community Relations													10,143
575240	Co Dues/Membership Deduct	6,505	4,284	15,365	(11,340)	187	318	21,646	39	168	418	1,008	6,025	497
575241	Co Dues/Membership Nondeductible	274	997	261	80	480	98	133	162	312	139	7,627	159	915
575242	Co Dues Deduct AWWA		3,176		(3,737)	8	1	34	58	95	35	84	54	44,205
575245	Co Dues Nondeductible NAWC				16	7								10,721
575250	Condemnation Costs													(193)
575260	Credit Line Fees	0	0	0	0	0	0	0	0	0	0	0	0	24
575270	Directors Fees													7
575276	Discounts Lost					903	119							1,022
575280	Dues/Membership Deductible	241	1,188	757	165	154	2,110	337	257	814	2,243	2,645	1,642	5
575281	Dues/Membership Nondeductible													6
575320	Electricity	1,512	1,963	1,893	1,941	2,950	1,993	3,836	3,269	4,731	2,540	3,955	3,004	12,553
575340	Employee Expense P/R/IE	13,615	36,852	21,872	20,829	33,461	23,207	19,241	18,854	31,009	24,817	29,699	28,652	446
575342	Employee Exp Conf/Registration	2,110	3,591	1,236	1,433	447	1,634	1,179	2,459	2,513	2,535	765	1,171	33,588
														302,108
														21,073

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	
575350	Meals Deduct	910	3,113	1,996	1,436	2,330	2,264	1,351	1,595	2,275	1,621	3,412	2,518	24,821	
575351	Meals Non Deduct	918	3,239	2,007	1,444	2,340	2,272	1,353	1,616	2,275	1,648	3,431	6,356	28,900	
575400	Bus Services Project Exp	3	1			3	1		3	1		3	1	18	
575420	Forms	1,107	185	2,608	(2,657)	(917)	475			302		113	26	1,241	
575460	Grounds Keeping	97	115	109	114	181	120	164	167	230	166	133	152	1,748	
575480	Heat - Oil/Gas	388	470	767	(30)	566	336	463	342	550	307	405	536	5,099	
575500	Janitorial	1,101	1,439	1,300	1,021	1,530	1,071	1,916	489	1,666	1,183	1,027	1,286	15,029	
575610	Merger Transactional Costs	29												29	
575620	Office & Admin Supplies	4,906	3,981	3,090	10,062	4,747	4,620	7,237	5,712	5,143	6,033	4,498	9,070	69,098	
575625	Overnight Shipping	1,340	1,041	914	968	1,665	985	1,552	1,042	1,731	1,457	1,091	3,218	17,005	
575640	Penalties Nondeductible	1,127	(292)	414	334	496	310	449	329	540	363	319	3,695	8,084	
575660	Postage	2,340	(309)	963	915	1,239	813	1,053	868	1,148	1,281	865	1,607	12,783	
575670	Relocation Expenses	4,166	14,567	(595)	23,881	16,104	8,353	3,746	480	738	2,308	3,023	(1,796)	74,976	
575680	Research & Development Exp	1	1	1	1	1	30	1	1	43	53	1	1	134	
575710	Security Service	340	446	462	601	699	433	627	467	758	671	470	811	6,784	
575711	Additional Security Costs	63					8					114		185	
575715	Software Licenses & Support	452	79,550	2,717	248	1,149	159	120	5,808	(1,036)	1,994	2,180	3,090	96,429	
575740	Telephone	9,644	20,330	7,684	11,266	17,552	16,904	10,586	8,428	16,690	10,525	12,055	15,221	156,884	
575741	Cell Phone	4,126	1,464	2,443	3,920	5,342	4,260	819	4,530	2,574	2,800	2,470	5,192	39,938	
575742	Data Lines	(1,335)	9,717	2,493	2,093	4,169	5,979	4,345	2,111	3,305	4,137	2,233	8,078	47,325	
575743	Wireless Service 1st	7	8	7	8	12	7	11	8	13	11	7	10	109	
575775	Trade Shows	2,504	2,574	551	1,798	550	1,149	(394)	2,007	51	409	1,868	1,049	14,115	
575780	Trash Removal	79	124	77	113	153	88	128	127	176	124	112	224	1,524	
675098	PCard Undistributed	37,755	(39,008)	4,682	(3,064)	(4,351)	14,704	(13,937)	12,061	(10,870)	996	2,151	10,702	11,822	
675000	Misc Maintenance	11,372	40,663	4,278	24,064	(30,157)	37,424	(12,641)	27,391	11,402	10,674	24,946	22,925	172,342	
675250	Comp Equip Hardware	33,152	(29,579)	(207)	3,112	1,603	3,964	2,127	2,554	3,308	2,874	2,498	7,205	32,612	
675350	HVAC Equipment	569	283	346	328	31	628	170	276	589	304	293	509	4,326	
675450	Office Equipment	8	9	8	9	214	(38)	513	61	33	82	55	11	964	
680110	Depreciation Exp-General	26,121	29,500	28,085	29,316	46,578	28,883	42,274	30,967	50,583	34,164	30,036	38,223	414,730	
685200	Property Taxes	998	1,127	1,073	1,120	1,779	1,103	1,614	1,183	1,932	1,305	1,147	6,930	21,309	
685320	FUTA	266	353	385	333	513	126	337	303	398	335	348	363	4,061	
685325	FICA	(2,447)	42,538	22,835	21,286	32,614	8,117	21,214	19,305	25,146	21,074	21,879	22,865	256,426	
685350	SUTA	1,926	2,559	2,781	2,385	3,715	916	2,445	2,197	2,887	2,422	2,524	2,633	29,391	
685430	Other Taxes and Licenses	2,980	1,673	1,706	4,031	18,504	1,859	1,712	3,566	1,697	14,717	1,081	48,712	102,239	
690110	FIT-Current	31,890	36,015	34,288	35,791	56,865	35,263	51,611	37,806	61,755	41,710	36,670	46,666	506,331	
690120	FIT-Prior Year Adjustment	(7,216)	(8,150)	(7,759)	(8,099)	(12,868)	(7,980)	(11,679)	(8,555)	(13,975)	(9,439)	(8,298)	(10,560)	(114,577)	
690210	SIT-Current	7,737	8,738	8,319	8,684	13,797	8,556	12,522	9,173	14,984	10,120	8,897	11,323	122,852	
690220	SIT-Prior Year Adjustment	(3,363)	(3,798)	(3,616)	(3,774)	(5,996)	(3,718)	(5,442)	(3,987)	(6,512)	(4,398)	(3,867)	(4,921)	(53,391)	
690610	Def FIT-Current	17	20	19	19	31	19	28	21	33	23	20	25	275	
690620	Def FIT-Pr Yr Adjustment	7,216	8,150	7,759	8,099	12,868	7,980	11,679	8,555	13,975	9,439	8,298	10,560	114,577	
690640	Def FIT-Norm Depreciation	(262)	(296)	(282)	(294)	(468)	(290)	(475)	(311)	(508)	(343)	(302)	(384)	(4,166)	
690650	Def FIT-Other	(30,445)	(34,384)	(32,735)	(34,170)	(54,290)	(33,665)	(49,273)	(36,094)	(58,958)	(39,821)	(35,009)	(44,552)	(483,395)	
690710	Def SIT-Current	4	5	5	5	8	5	7	5	8	6	5	6	68	
690720	Def SIT-Pr Yr Adjustment	3,363	3,798	3,616	3,774	5,996	3,718	5,442	3,987	6,512	4,398	3,867	4,921	53,391	
690750	Def SIT-Other	(7,444)	(8,407)	(8,004)	(8,355)	(13,275)	(8,232)	(12,048)	(8,825)	(14,416)	(9,737)	(8,560)	(10,894)	(118,198)	
710400	Interest Income-Outside	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	
721306	Gains NUP Cap	651	735	700	730	1,160	720	1,053	772	1,260	851	748	952	10,333	
760200	Other Income Deductions			(13,495)	13,495					970				970	
760500	Non-Op Employee Exp Deduct	7				22,293	15,499	20,596	16,185	(17,530)	17,812	16,385	19,409	172,881	
810400	Interest LTD-Inside	14,888	16,084	15,463	15,797										
830000	Interest on ST Debt-Outside	(3,061)	(3,457)	(3,292)	(3,436)	(5,459)	(3,385)	(4,955)	(3,629)	(5,928)	(4,004)	(3,520)	(4,480)	(48,608)	
840000	Other Interest Expense	42	(17)	(24)	(5)	(4)	3	27	(5)	(4)	(5)	(8)	(6)	(6)	
Total O&M Expenses		617,941	1,020,813	805,042	760,773	943,277	1,000,614	643,325	726,239	1,034,442	814,719	939,131	2,600,545	11,906,861	
Capitalized Costs		173,840	122,916	169,746	158,192	261,259	133,238	176,392	103,591	214,361	168,175	141,294	160,135	1,983,139	
Total Service Company Charges		791,781	1,143,729	974,788	918,965	1,204,536	1,133,852	819,717	829,830	1,248,803	982,894	1,080,425	2,760,680	13,889,999	

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Account	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200 Labor	358,062	322,100	369,258	392,548	406,343	384,975	383,492	402,465	356,877	405,664	395,341	443,806	4,620,933
501205 Labor Expts	454	454	461	4,846									6,215
501711 Incentive Plan-Off-Annual	57,581	57,929	(103,713)	40,746	38,936	46,678	59,241	37,777	68,509	10,935	84,306	9,294	408,218
501712 Incentive Plan-Off-Long Term	8,376	17,802	8,143	8,143	8,143	8,143	8,143	8,143	18,913	18,913	18,913	46,758	178,534
501715 Retention/Completion	18,515	18,515	18,515	18,515	18,515	18,515	18,515	18,515	2,512	17,753	17,753	(1,320)	184,821
504100 Group Inc Maintenance	66,294	57,119	69,941	58,784	58,839	58,589	52,319	55,872	53,211	55,697	55,964	65,121	707,749
504500 Other Welfare Maintenance	13,451	6,511	40,152	6,985	5,110	2,388	7,245	5,525	(675)	1,570	15,866	4,525	108,693
504610 Employee Awards	5,477	233	385	1,429	1,465	3,627	48	24	543	645	1,830	2,090	23,379
504620 Employee Physical Exam	244		5	48	(1)					48			416
504640 Safety Incentive	1	0	1	1	1	1	1	1	1	1	0	1	6
504660 Tuition Aid	2,398	955	251	1,142	1,298	222	1,418	2,392	1,337	817	789	1,222	14,241
504670 Training	1,114	435	2,193	2,613	10,087	12,639	9,125	5,733	2,762	8,662	1,725	8,723	65,811
504671 Training-Safety	2,539	1,475	1,563	1,475	1,475	1,920	1,476	1,475	1,475	5,431	1,475	1,476	23,257
505100 PBOB	10,489	8,946	10,530	9,322	9,316	9,051	8,454	8,867	8,436	8,853	10,389	10,389	111,438
506100 Pension	46,032	39,508	46,474	40,991	40,962	39,798	37,173	38,989	37,093	38,633	38,928	45,276	489,857
507100 401k	6,446	6,869	6,938	6,612	6,610	6,666	7,246	6,480	6,287	6,930	7,309	9,878	84,270
508101 Defined Contribution Plan	2,360	4,586	3,210	3,985	5,271	2,759	5,881	4,473	4,925	5,561	5,411	9,026	57,448
508101 Purchased Power								(997)	(1)				
520100 Materials & Supplies Operations	1,215	49	12	3	26	6	5	(997)	(1)	69	986	77	1,450
531000 Contract Services-Engineering	7,319	1,269	1,269	2,368	918	11,503	(5,783)	4,759	(2,295)	2,295	214	141	22,708
532000 Contract Services-Accounting	(2,021)	5,043	(4,832)	348	6,374	1,830	(0)	8,750	1,954	8,890	1,027	875	28,236
533000 Contract Services-Legal	1,271	3,475	(1,833)	2,327	2,838	2,182	3,779	3,197	732	280	(446)	4,802	22,614
533001 Contract Services-Litigation	35	(35)											
535000 Contract Services-Other	100,511	188,028	184,474	157,944	209,115	120,109	195,792	99,994	177,219	122,054	170,739	137,629	1,863,608
535001 Contract Services-Temp Employee	13,078	10,224	12,546	14,084	20,175	12,742	12,072	28,203	18,527	29,953	17,190	11,280	200,075
535002 Contract Services-STEP Backfill	(0)												(0)
536000 Contract Services-Lab Testing	34	65	2	41	25	(16)	6	69	6	63	3	(65)	235
541000 Rents-Real Property	24,334	18,553	22,601	24,178	23,691	21,823	21,467	21,513	22,693	20,890	20,777	26,353	268,874
541001 Rents-Real Property Intercompany	6,812	4,907	6,272	7,069	6,948	6,348	7,671	6,296	6,443	6,600	6,139	7,950	79,455
541400 Rents-Equipment	1,512	1,762	2,342	2,408	2,458	4,235	695	2,042	1,982	6,231	1,329	2,614	26,952
550000 Transportation IT-Admin	1,098	1,808	1,451	1,396	2,333	1,786	2,020	1,822	1,833	1,574	1,933	1,729	20,783
550001 Transportation Lease Cost	1,831	1,831	1,723	1,935	1,959	1,741	2,135	1,806	1,739	1,782	1,657	2,146	21,807
550002 Transportation Lease Fuel	1,016	741	921	1,037	1,049	931	1,125	922	944	968	897	1,164	11,717
550003 Transportation Lease Maintenance	450	400	409	474	470	444	501	411	421	430	400	519	5,330
557000 Insurance Gen Liability	(662)	(477)	(609)	(687)	(675)	(617)	(745)	(611)	(624)	(611)	(596)	(772)	(7,717)
558000 Insurance Work Comp	1,231	886	1,133	1,277	1,255	1,147	1,386	1,137	1,164	1,192	1,109	1,436	14,355
559000 Insurance Other	5,999	4,322	5,373	6,226	6,119	5,591	6,756	5,545	5,674	5,813	5,407	7,002	69,826
570100 Uncollectible Accounts	21,704		(9)		186			(7,995)	(1,693)	(5,400)	(742)	(89)	13,044
575000 Miscellaneous	4,244	4,640	3,834	(9,823)	2,050	(2)	(2,431)	2,667	(1,693)		4,373	2,851	5,312
575002 Misc General Office	3,673	402	1,790	1,562	1,974	49	1,701	698	2,187	727	866	2,051	17,679
575030 Advertising	26	1,939	716	739	1,639	(176)	850	966	724	533	216	(269)	7,902
575100 Bank Service Charges	22	20	25	29	102	26	31	25	26	37	25	33	401
575130 Brochures and Handouts	53	150	532	89	240	2,422	1,683	224	815	129	(1,911)	962	5,387
575140 Charitable Contributions Deduct	152	92	675	1,030	3,104	246	392	307	15	10	3,330	1,951	11,306
575141 Charitable Contributions Nondeductible			8										8
575220 Community Relations	336	211	214	5,143	2,221	237	232	668	59	475	95	60	9,951
575240 Co Dues/Membership Deduct	253	115	129	261	139	382	174	304	144	633	190	413	3,136
575241 Co Dues/Membership Nondeductible	39	41	51	53	41	67	41	41		41	41	62	516
575242 Co Dues Deduct AWWA					10					531			540
575250 Condemnation Costs													65
575261 Credit Line Fees Inside			26	29	29	26	32	26	27	27	25	33	329
575276 Discounts Lost		20		3				20	2	1			26
575280 Dues/Membership Deductible	3,424	603	1,740	472	416	2,320	(42)	741	2,720	1,813	2,131	687	17,027
575281 Dues/Membership Nondeductible													25
575320 Electricity	2,775	3,375	3,907	4,197	4,253	4,057	4,712	6,650	4,374	4,086	3,584	4,465	50,435
575340 Employee Expense P/R JE	14,395	22,043	26,313	22,730	33,623	25,773	19,326	48,307	22,335	(5,528)	21,848	2,102	253,269
575342 Employee Exp Conf/Registration	946	1,304	1,615	1,795	1,066	1,998	2,051	5,628	1,736	1,360	1,499	1,065	22,064
575350 Meals Deduct	4,073	1,612	1,407	2,056	2,323	1,868	1,759	3,101	1,106	6,050	1,802	959	28,116

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Account	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575351 Meals Non Deduct	4,045	1,613	1,421	2,056	2,323	1,902	1,762	3,102	1,112	6,060	1,795	998	28,188
575400 Bus Services Project Exp		1									33		34
575420 Forms	75	30	1	242	57	1	472	2	1	50	140	259	1,331
575460 Grounds Keeping	146	108	137	155	165	139	319	162	141	162	135	174	1,943
575480 Heat - Oil/Gas	556	517	569	458	442	364	431	359	399	470	344	649	5,551
575500 Janitorial	1,430	1,047	1,296	1,509	1,466	1,335	1,616	1,351	1,387	1,854	1,298	1,908	17,495
575610 Merger Transactional Costs		5	(5)										
575620 Office & Admin Supplies	285	4,247	6,785	5,263	5,207	5,021	5,630	6,341	4,526	5,027	6,001	6,295	60,629
575625 Overnight Shipping	1,295	1,064	1,456	2,264	1,524	1,560	1,696	2,153	1,648	1,740	1,278	1,615	19,294
575640 Penalties Nondeductible	(136)	6,283	(110)	(3,772)	(170)	(178)	(160)	(3,352)	(155)	(159)	(98)	(159)	(2,167)
575660 Postage	886	(20)	870	909	894	921	981	1,027	882	844	1,040	1,188	10,422
575670 Relocation Expenses	62,459	493	5,568	1,001	4,331	8,732	(606)	16,030	(3,400)	32,797	1,593	(6,013)	122,985
575680 Research & Development Exp		(1)	(1)	21	295	(1)	33	(1)	(1)	(1)	(1)	(1)	338
575710 Security Service	1,041	780	963	1,078	1,762	977	1,181	969	992	1,016	952	1,224	12,935
575715 Software Licenses & Support	(184)	2,992	6,175	(460)	957	2,042	2,692	5,278	3,903	5,158	7,528	1,754	37,834
575740 Telephone	12,547	10,010	12,869	11,751	13,309	12,437	14,207	14,314	12,887	12,479	12,787	16,308	155,905
575741 Cell Phone	320	2,165	2,358	2,671	2,842	2,632	2,975	2,848	3,569	2,858	3,191	3,717	32,144
575742 Data Lines	(1,930)	1,498	4,849	3,484	3,958	4,359	(4,633)	5,634	5,401	1,288	2,238	5,475	31,621
575743 Wireless Service 1st	(0)	(0)	2	2	3	4	981	(976)	2	2	2	(0)	22
575775 Trade Shows	582	204	1,053	(54)	1,813	131	160	783	1,239	3,373	2,991	277	12,553
575780 Trash Removal	135	119	136	151	136	124	178	137	126	142	147	169	1,701
575790 Trustee Fees	1	0	1	1	1	1	1	1	1	1	1	1	7
575998 PCard Undistributed	(8,638)	6,091	3,748	(5,297)	3,091	528	1,257	(22,092)	1,236	768	3,229	868	(15,209)
575999 Purchased Card													
675000 Misc Maintenance	17,785	17,615	27,208	5,881	19,450	18,249	25,710	17,538	18,237	25,822	28,120	23,553	245,168
675250 Comp Equip Hardware	885	1,486	1,386	1,488	1,470	1,918	1,860	1,365	1,785	1,444	1,351	1,597	18,035
675350 HVAC Equipment	653	467	715	655	652	580	849	575	738	603	561	726	7,773
675450 Office Equipment	58	39	50	56	55	56	66	50	51	52	49	63	645
680110 Depreciation Exp-General	45,606	32,853	41,992	47,327	46,518	42,504	51,356	42,152	43,137	44,191	41,102	53,228	531,965
685200 Property Taxes	1,130	814	1,041	1,173	1,565	1,466	1,685	1,457	1,481	1,507	1,431	1,731	16,482
685320 FUTA	572	491	577	511	511	496	464	486	465	482	485	563	6,103
685325 FICA	30,663	26,296	30,952	27,402	27,388	26,654	25,915	25,064	25,064	25,926	26,022	32,024	329,352
685350 SUTA	3,177	2,719	3,208	2,840	2,838	2,757	2,576	2,701	2,774	2,676	2,190	3,128	33,584
685430 Other Taxes and Licenses	1,591	(20,599)	140	491	1,495	379	86	45	12,853	(430)	580	779	(2,590)
685440 Gross Receipts Tax													
690110 FIT-Current	3,615	2,604	3,329	3,752	3,688	3,369	4,071	3,342	3,420	3,503	3,258	4,220	42,172
690120 FIT-Prior Year Adjustment	3,233	2,329	2,977	3,355	3,297	3,013	3,640	2,988	3,058	3,132	2,913	3,773	37,707
690210 SIT-Current	560	403	515	581	571	521	630	517	529	542	504	653	6,527
690220 SIT-Prior Year Adjustment	(398)	(287)	(366)	(413)	(406)	(371)	(448)	(368)	(376)	(385)	(358)	(464)	(4,640)
690610 Def FIT-Current	190	137	175	197	193	177	213	175	179	184	171	221	2,211
690620 Def FIT-Pr Yr Adjustment	(3,394)	(2,445)	(3,125)	(3,522)	(3,462)	(3,163)	(3,822)	(3,137)	(3,210)	(3,289)	(3,059)	(3,961)	(39,591)
690640 Def FIT-Norm Depreciation	4,290	3,090	3,950	4,451	4,375	3,998	4,830	3,965	4,057	4,157	3,866	5,006	50,035
690650 Def FIT-Other	(7,991)	(5,756)	(7,358)	(8,292)	(8,151)	(7,447)	(8,998)	(7,386)	(7,558)	(7,743)	(7,202)	(9,326)	(93,208)
690710 Def SIT-Current	35	25	32	36	35	32	39	32	33	34	31	41	405
690720 Def SIT-Pr Yr Adjustment	485	349	447	503	495	452	546	448	459	470	437	566	5,559
690750 Def SIT-Other	(575)	(414)	(530)	(597)	(587)	(536)	(648)	(532)	(544)	(557)	(518)	(671)	(6,708)
710400 Interest Income-Outside	(13,543)	(9,756)	(62,222)	35,698	(13,814)	(12,622)	(15,250)	(12,517)	(12,810)	(13,123)	(12,205)	(15,806)	(157,968)
721305 Gains NUP Ordinary	241	173	222	250	246	224	271	223	228	233	217	281	2,809
760200 Other Income Deductions	348												348
810301 Interest Cap Lease-AW02	19,087	13,750	17,575	19,808	19,469	22,428	26,008	22,029	22,315	22,629	21,207	26,153	252,459
810400 Interest LTD-Inside	4,888	4,889	4,764	4,617	4,498	(242)	(292)	(240)	(246)	(252)	(234)	(303)	21,848
830000 Interest on ST Debt-Outside	(0)	(0)	49,752	(49,752)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
840000 Other Interest Expense	6	2,811	(16)	(10)	3	7	(28)	(135)	1	(6)	1	61	2,696
Total O&M Expenses	980,132	963,459	918,079	972,887	1,107,476	975,187	1,032,078	984,151	987,216	987,748	1,075,543	1,043,118	12,027,074
Capitalized Costs	134,960	105,944	107,687	91,093	86,243	90,435	126,387	95,389	85,874	108,201	109,277	105,134	1,246,625
Total Service Company Charges	1,115,092	1,069,403	1,025,765	1,063,980	1,193,719	1,065,621	1,158,465	1,079,540	1,073,091	1,095,950	1,184,820	1,148,253	13,273,699

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	423,016	401,796	381,602	413,721	419,847	429,799	464,598	335,440	400,061	410,359	374,325	453,561	4,908,125
501711	Incentive Plan-Off-Annual	40,723	41,709	36,896	41,068	42,835	59,210	52,284	40,378	31,015	38,598	41,210	39,236	505,164
501712	Incentive Plan-Off-Long Term			35,512	39,832	14,800	(0)	(7,120)					(52,485)	30,538
501715	Retention/Completion	17,310	17,310	23,315	2,369	-		(4,632)					2,784	58,456
501716	Compensation Exp-Options						1,300	6,497	5,837	5,382	5,469	5,930	6,279	36,693
501717	Compensation Exp-Restricted Stock					12,818		16,015						28,834
501718	Compensation Exp-Restricted Stock Units						(13,047)	3,303	2,916	1,860	4,019	1,650	3,346	4,046
501719	Compensation Exp-Notional Dividend												1,664	-
504100	Group Ins Maintenance	65,936	62,908	58,313	57,368	58,848	58,319	59,206	52,373	60,331	49,787	50,993	55,091	689,472
504341	Defined Contr Supp Exec Retirement Plan Exp				267	67	1,154	67	67	67	73	73	73	1,907
504342	401 K Restoration Exp				580	145	145	145	153	153	153	153	153	1,782
504500	Other Welfare Maintenance	35,172	3,069	1,424	11,661	14,970	4,545	6,478	4,260	12,290	5,295	6,071	14,801	120,036
504610	Employee Awards	383	342	930	1,436	(223)	1,032	1,580	3,766	1,523	545	1,529	657	13,500
504620	Employee Physical Exam	25	129		4	26	42	4		4	26	131	132	523
504660	Tuition Aid	1,557	852	484	(156)	2,094	487	1,278	3,668	1,033	2,329	733	1,476	15,935
504670	Training	3,045	3,180	6,023	8,036	11,128	5,431	6,091	8,701	5,222	4,523	8,077	3,034	72,492
504671	Training-Safety	1,549	1,814	1,723	1,991	1,549	1,641	1,641	1,572	1,572	1,935	1,823	1,572	20,587
505100	PBOP	13,189	12,683	11,680	11,483	11,811	11,684	11,859	10,513	12,056	9,988	10,254	11,080	138,280
506100	Pension	47,298	45,485	41,887	41,180	42,359	41,901	42,530	37,702	43,237	35,821	36,773	39,736	495,909
507100	401K	7,178	7,424	6,623	7,005	7,133	7,123	9,275	6,734	7,165	9,215	9,380	12,923	97,180
508101	Defined Contribution Plan	6,646	7,273	6,971	6,892	7,230	7,018	10,463	6,903	6,886	6,765	7,255	10,882	91,485
508200	Employee Stock Purchase Plan		3	487		131	-	713	(547)	2,261	558	558	943	3,671
520100	Materials & Supplies Operations													3,154
531000	Contract Services-Engineering		3,866	257	67	3,778	4,049	7,565	10,435	6,485	(1,198)	2,571	2,566	40,441
532000	Contract Services-Accounting	1,815	798	418	0	2,877	5,793	8,575	6,077	7,195	322	1,778	332	35,878
533000	Contract Services-Legal	980	1,659	866	1,366	1,685	1,164	6,535	1,546	3,273	1,838	1,143	4,132	26,187
533001	Contract Services-Litigation													-
535000	Contract Services-Other	130,927	129,815	120,556	84,426	70,325	81,296	92,654	63,479	42,858	66,021	58,203	67,766	1,008,367
535001	Contract Services-Temp Employee	5,982	6,700	11,449	8,972	10,087	5,905	9,281	5,399	9,532	6,234	3,913	4,252	87,708
536000	Contract Services-Lab Testing		20	39	32	(95)	41	(884)	(1,143)	(912)	(945)	(1,050)	(170)	(5,067)
541000	Rents-Real Property	20,281	30,090	10,640	22,426	19,556	18,585	16,816	18,756	13,203	17,470	20,974	20,729	229,525
541001	Rents-Real Property Intercompany	6,090	9,625	2,706	6,561	5,838	5,379	5,000	5,566	3,587	5,108	6,366	6,270	68,095
541400	Rents-Equipment	1,645	2,148	985	1,915	1,327	1,649	1,441	1,249	825	1,211	1,438	1,391	17,207
550000	Transportation IT-Admin	1,809	1,420	1,416	1,466	1,600	1,659	1,528	1,528	1,514	1,318	1,632	1,589	18,604
550001	Transportation Lease Cost	862	1,384	363	928	828	761	707	787	508	723	901	909	9,660
550002	Transportation Lease Fuel	354	590	153	401	339	315	290	326	213	295	372	365	4,015
550003	Transportation Lease Maintenance	232	369	101	250	223	213	191	232	140	192	243	239	2,626
557000	Insurance Gen Liability	2,859	4,518	1,270	3,080	2,740	2,525	2,612	2,612	1,684	2,397	2,988	2,943	31,963
558000	Insurance Work Comp	2,319	3,665	1,031	2,499	2,223	2,048	1,904	2,120	1,366	1,945	2,424	2,388	25,933
559000	Insurance Other	4,425	6,993	1,967	4,767	4,242	3,908	3,365	4,044	2,606	3,711	4,626	4,556	49,210
570100	Uncollectible Accounts	(125)	85	368		609	609	0	6	(0)	43		90	1,076
575000	Miscellaneous	(5,792)	3,045	105	(2,763)	650	19,766	(5,969)	(19,363)	3,691	(8,206)	1,395	1,268	(12,173)
575002	Misc General Office	1,615	6,161	3,669	(2,727)	579	1,889	3,211	852	1,891	609	1,149	1,869	20,766
575030	Advertising	1,498	834	826	419	(293)	1,210	67	846	224	1,248	335	(284)	6,930
575100	Bank Service Charges	1	2	1	2	1	1	1	1	1	1	2	2	16
575130	Brochures and Handouts	450	(342)	50	278	796	(145)	516	133	551	176	178	3	2,645
575140	Charitable Contributions Deduct	172	47	222	42	3,227	1,263	275	10	2	211	213	2,078	7,762
575141	Charitable Contributions Nondeductible				742									742
575220	Community Relations	33	296	104	1,732	1,875	358	334	11	521	58	59	-	5,380
575240	Co Dues/Membership Deduct	188	356	172	81	102	166	463	304	351	265	276	489	3,213
575241	Co Dues/Membership Nondeductible	95	1,035	24	102	113	91	89	94	76	90	122	55	1,985
575242	Co Dues Deduct AWWA								31			8	-	39
575250	Condemnation Costs								85	-				85
575260	Credit Line Fees			0		(0)								-
575261	Credit Line Fees Inside	20	31	9	21	19	18	16	18	12	17	21	20	222
575276	Discounts Lost	0	0	0	0	0	0	0	0	0	0	0	0	3
575280	Dues/Membership Deductible	2,169	668	441	358	2,681	575	1,097	483	1,304	890	3,209	1,278	15,154
575281	Dues/Membership Nondeductible							45				7		52

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575320	Electricity	4,838	5,702	2,975	4,428	4,651	2,356	4,086	4,246	3,168	2,704	4,389	4,161	47,704
575340	Employee Expense P/R IE	18,122	22,157	29,171	30,778	30,462	38,140	16,314	23,718	21,961	18,286	21,132	4,828	275,070
575342	Employee Exp Conf/Registration	2,370	604	2,565	2,907	493	1,072	6,600	1,332	3,786	704	657	1,092	24,183
575350	Meals Deduct	1,801	1,664	2,782	2,907	1,869	2,205	2,038	3,170	2,019	2,259	1,455	1,827	26,890
575351	Meals Non Deduct	1,801	1,671	2,822	4,044	1,871	2,565	1,805	3,170	1,999	2,273	1,455	1,790	27,268
575420	Forms	723		78		147	27	148	142	122	11	447		1,845
575460	Grounds Keeping	207	238	70		169	194	154	160	162	113	183	167	1,957
575480	Heat - Oil/Gas	706	736	269	482	396	384	344	443	462	356	582	513	5,672
575490	Injuries and Damages			219										219
575500	Janitorial	1,536	2,393	752	1,837	1,770	1,301	1,360	1,653	921	1,540	1,640	1,671	18,374
575620	Office & Admin Supplies	4,107	6,403	5,701	6,407	6,514	4,596	6,315	6,749	4,110	6,562	4,551	9,688	71,701
575625	Overnight Shipping	1,625	2,244	1,403	1,464	1,773	1,417	1,453	1,402	980	1,477	1,661	1,496	18,394
575640	Penalties Nondeductible	24	38	68	21	357	20	115	(98)	10	278	34	139	1,095
575660	Postage	1,175	1,781	501	1,221	1,083	995	1,024	1,509	251	1,004	1,179	1,159	12,883
575670	Relocation Expenses	10,555	19,303	1,798	819	2,152	2,484	71	9,408	3,023	3,356	1,664	(354)	54,279
575710	Security Service	1,072	1,792	407	1,154	1,085	946	880	1,154	631	899	1,140	1,103	12,145
575715	Software Licenses & Support	3,699	2,046	1,229	11,309	(797)	2,111	1,266	1,315	5,654	1,168	3,042	2,512	34,553
575740	Telephone	12,150	23,496	8,279	12,672	15,844	29,642	(2,784)	12,018	16,715	11,916	10,232	11,820	162,001
575741	Cell Phone	3,238	3,292	2,966	3,023	3,210	1,018	16,400	3,654	13,454	4,783	(11,198)	(2,541)	41,300
575742	Data Lines	6,246	7,929	5,409	7,276	6,920	(5,468)	10,391	(17,542)	1,991	2,649	2,994	3,070	31,864
575743	Wireless Service 1st	7	2	2		4	37	5	37	60	64	40	47	307
575775	Trade Shows	1,331	234	0	150	285	1,805	81	(177)	797	2,776	(424)	3,264	10,122
575780	Trash Removal	172	265	85	171	182	140	160	145	104	148	178	176	1,927
575998	PCard Undistributed	(42)	2,175	1,018	3,658	1,470	(8,535)	5,592	1,372	(3,353)	3,717	(2,963)	993	5,101
675000	Misc Maintenance	18,623	30,188	8,017	20,526	17,232	16,422	17,483	17,584	12,103	19,658	21,486	19,557	217,880
675250	Comp Equip Hardware	930	810	759	1,220	764	947	1,087	(3,596)	418	189	198	194	3,920
675350	HVAC Equipment	687	861	242	721	552	623	470	498	333	608	573	561	6,731
675450	Office Equipment	13	39	6	89	13	12	13	12	8	55	14	14	451
680112	Depreciation Exp Non-Utility	51,396	-	162,828	80,834	73,706	86,218	73,482	100,701	81,399	78,750	79,800	87,908	957,023
685200	Property Taxes	1,929	2,806	1,089	2,046	1,445	1,647	2,875	2,296	22,408	4,399	(27,598)	1,556	16,899
685320	FUTA	479	463	421	421	429	425	431	383	437	363	373	403	5,040
685325	FICA	35,086	34,972	42,965	31,496	31,414	30,954	33,283	28,094	31,283	26,632	27,722	29,774	383,675
685350	SUTA	2,486	2,493	2,188	389	2,193	2,192	3,294	2,103	2,208	1,897	1,969	2,111	25,513
685430	Other Taxes and Licenses	339	15	408	358	(114)	8	13	79	4	31	1	0	1,143
690110	FIT-Current	(22,298)	(35,239)	(9,909)	(24,021)	(21,375)	(19,693)	(18,306)	(20,377)	(13,133)	(18,701)	(23,308)	(22,958)	(249,319)
690120	FIT-Prior Year Adjustment	(14,705)	(23,241)	(6,535)	(15,842)	(14,097)	(12,987)	(12,073)	(13,499)	(8,661)	(12,333)	(15,372)	(15,141)	(164,428)
690210	SIT-Current	18	29	8	20	18	16	15	17	11	15	19	19	205
690220	SIT-Prior Year Adjustment	(369)	(563)	(164)	(397)	(354)	(326)	(303)	(337)	(217)	(309)	(386)	(380)	(4,124)
690610	Def FIT-Current	380	600	169	409	364	335	312	347	224	318	397	391	4,245
690620	Def FIT-Pr Yr Adjustment	14,689	23,215	6,528	15,825	14,082	12,973	12,060	13,424	8,652	12,320	15,355	15,125	164,249
690640	Def FIT-Norm Depreciation	3,205	5,065	1,424	3,453	3,072	2,831	2,631	2,929	1,888	2,688	3,350	3,300	35,836
690650	Def FIT-Other	18,023	28,483	8,009	19,416	17,277	15,917	14,797	16,471	10,615	15,115	18,840	18,557	201,519
690710	Def SIT-Current	(2)	(4)	(1)	(2)	(2)	(2)	(2)	(2)	(1)	(2)	(2)	(2)	(26)
690720	Def SIT-Pr Yr Adjustment	395	624	176	426	379	349	324	361	233	331	413	407	4,417
690750	Def SIT-Other	(158)	(249)	(70)	(170)	(151)	(139)	(130)	(144)	(93)	(132)	(165)	(163)	(1,765)
710400	Interest Income-Outside	-	-	-	-	-	-	-	-	-	-	-	-	-
710500	Interest Income-Inside	(2,359)	(3,729)	(1,048)	(2,542)	(2,262)	(2,084)	(1,937)	(2,156)	(1,390)	(1,979)	(2,466)	(2,429)	(26,380)
721304	Gains/(Losses) NUP Disposals	1,590	2,514	707	1,713	1,525	1,405	1,306	1,454	937	1,334	1,663	1,638	17,784
721305	Gains NUP Ordinary	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
722306	Gains Other Non-OR	(31)	(49)	(14)	(63)	128	10,791	(13,612)	(2,758)	1,505	(15,961)	(20,877)	(5,988)	(46,929)
810301	Interest Cap Lease-AW02	22,994	33,528	12,110	23,668	21,207	19,735	18,470	20,135	14,023	18,606	22,387	22,021	248,884
840000	Other Interest Expense	16	13	(5)	26	29	7	9	(11)	16	9	94	9	213
Total O&M Expenses		1,054,853	1,031,640	1,074,690	1,040,722	1,014,269	1,027,104	1,048,327	849,893	940,619	890,420	822,782	935,909	11,731,228
Capitalized Costs		47,219	71,895	69,986	77,772	88,313	70,005	97,433	77,353	82,074	83,068	82,710	102,157	949,884
Total Service Company Charges		1,102,072	1,103,535	1,144,676	1,118,493	1,102,581	1,097,110	1,145,759	927,245	1,022,694	973,488	905,492	1,038,067	12,681,213

Arizona American Water Company  
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343  
Monthly Service Company Charges by Object Account  
12 Months ending December 2009

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	405,733	362,918	417,000	415,985	403,716	394,684	429,161	377,715	429,317	442,259	410,552	422,616	4,911,657
501210	Labor Non Scheduled Overtime	9	33,219	106	409	613	1,088	9,892	786	1,045	729	197	665	48,759
501211	Labor Overtime	55	1,590	4,340	4,384	4,891	8,756	7,907	9,082	11,366	9,545	15,181	6,686	83,733
501711	Incentive Plan-Off-Annual	43,903	37,005	(10,175)	95,339	40,793	62,259	43,354	39,449	39,550	42,884	68,182	41,484	544,028
501716	Compensation Exp-Options	17,247	(438)	7,855	7,438	7,941	7,643	7,651	8,149	7,488	7,545	93,187	7,714	95,275
501718	Compensation Exp-Restricted Stock Units	17,369	(184)	8,031	6,015	7,914	7,814	8,120	7,822	8,326	7,656	8,677	7,714	95,275
504100	Group Ins Maintenance	57,529	70,334	58,979	43,521	59,985	60,333	62,115	60,193	64,303	59,052	68,097	58,741	723,181
504341	Defined Contr Supp Exec Retirement Plan Exp	168	200	252	216	154	152	158	152	139	149	169	150	2,058
504342	Other K Restoration Exp	126	133	570	140	38	37	39	37	(30)	37	41	37	1,206
504500	Other Welfare Maintenance	3,792	2,101	361	10,858	25,381	2,762	7,332	59,843	73,406	60,778	542	28,813	275,971
504610	Employee Awards	233	337	1,349	315	433	172	798	987	1,432	880	464	1,981	9,381
504620	Employee Physical Exam			1		55		302					320	678
504660	Tuition Aid	3,745	1,437	789	2,640	1,591	1,001	574	2,618	1,585	1,313	599	1,197	19,086
504670	Training	1,013	4,173	1,634	2,392	1,003	1,347	1,238	2,960	4,772	1,870	10,457	5,964	38,824
504671	Training-Safety	1,629	1,756	1,629	1,629	1,629	1,629	1,724	1,629	2,168	1,629	1,629	1,629	20,309
505100	PBO	15,993	19,289	16,489	12,348	16,248	16,043	16,672	16,059	17,093	15,717	17,815	15,838	195,606
506100	Pension	74,543	89,905	76,851	57,554	75,729	74,776	77,705	74,851	79,668	73,256	83,034	73,819	911,692
507100	401k	7,527	8,052	7,271	7,517	7,737	10,630	7,363	7,219	7,760	7,901	10,936	6,716	96,628
508101	Defined Contribution Plan	7,574	7,288	7,236	7,409	7,819	10,732	7,547	7,232	7,993	7,785	11,750	8,073	98,438
508200	Employee Stock Purchase Plan	961	867	654	654	654	775	775	775	544	544	544	661	8,408
520100	Materials & Supplies Operations		576	(231)	0	121	111	0	2	-	40	65	490	1,174
520100	Contract Services-Engineering	2,594	2,587	2,636	2,587	2,587	2,587	6,411	4,028	4,028	3,971	3,045	794	37,858
532000	Contract Services-Accounting	1,481	662	-	-	384	5,210	1,727	(25)	1,453	-	(2,051)	8,840	8,840
533000	Contract Services-Legal	1,800	1,055	4,473	2,504	3,798	2,303	(971)	1,740	1,221	1,984	1,324	2,269	23,500
533001	Contract Services-Litigation			(1)										(1)
535000	Contract Services-Other	68,269	36,142	11,106	42,069	28,339	27,792	31,392	33,883	41,553	46,400	51,647	156,083	574,674
535001	Contract Services-Temp Employee	1,685	3,143	3,296	3,179	4,067	5,072	4,816	4,863	4,863	4,821	4,821	5,338	50,296
536000	Contract Services-Lab Testing	(1,391)	(708)	(1,090)	(881)	(934)	(731)	(876)	(967)	(1,172)	(2,351)	(1,026)	(1,612)	(13,738)
541000	Rents-Real Property	19,828	21,190	6,187	15,082	15,941	11,385	17,113	13,063	15,498	13,756	12,452	19,003	180,499
541001	Rents-Real Property Intercompany	11,969	12,851	2,441	8,270	9,486	7,055	10,043	6,795	9,470	7,689	6,694	11,470	104,233
541001	Rents-Equipment	1,268	1,315	245	966	1,058	701	1,186	676	931	886	923	1,373	11,529
541401	Rents-Equipment Intercompany	375	402	76	259	297	221	314	213	296	239	209	358	3,260
550000	Transportation IT-Admin	1,924	2,000	2,472	2,133	2,119	2,110	2,358	1,898	1,968	2,129	1,658	1,861	24,629
550001	Transportation Lease Cost	970	1,042	198	671	769	572	814	551	768	620	543	929	8,447
550002	Transportation Lease Fuel	315	338	64	218	250	186	273	181	249	203	176	301	2,754
550003	Transportation Lease Maintenance	139	150	28	96	110	83	116	79	110	89	78	133	1,213
556000	Insurance Vehicle	49	53	10	34	39	29	41	28	39	28	47	429	429
557000	Insurance Gen Liability	7,728	8,298	1,576	5,340	6,125	4,555	6,484	4,387	6,115	4,940	4,314	7,396	67,258
558000	Insurance Work Comp	2,448	2,628	489	1,691	1,940	1,443	2,054	1,390	1,937	1,564	1,366	2,342	21,302
559000	Insurance Other	2,467	2,648	503	1,704	1,954	1,454	2,069	1,400	1,951	1,576	1,377	2,360	21,462
570100	Uncollectible Accounts	(87)	1	40	(43)	(24)	2	(368)	(12)	15	(53)	0	1,641	1,114
575000	Miscellaneous	3,387	(3,523)	(3,246)	246	1,280	2,474	2,076	(4,197)	(3,343)	8,247	1,415	(3,496)	1,320
575002	Misc General Office	1,112	4,229	1,033	1,826	1,831	3,071	2,486	3,118	76	4,611	7,721	218	31,333
575030	Advertising	81	558	1,156	614	1,194	7	261	1,423	763	(270)	125	456	6,368
575100	Bank Service Charges	1	1	0	0	1	0	1	0	1	0	0	177	183
575130	Brochures and Handouts	(1)	33	11	4	4	46	213	(71)	628	208	46	26	1,147
575140	Charitable Contributions Deduct	442		47	243	83	3,456					221	1,937	6,430
575141	Charitable Contributions Nondeductible				83									83
575220	Community Relations	-	-	49	-	543	94	283	111	33	11	24	509	1,656
575240	Co Dues/Membership Deduct	580	234	235	214	272	438	81	113	172	159	26	48	2,571
575241	Co Dues/Membership Nondeductible	136	95	56	31	49	26	38	25	35	29	25	43	588
575242	Co Dues Deduct AWWA							82				9	-	91
575250	Condemnation Costs							144			1			145
575261	Credit Line Fees Inside	140	150	29	97	111	83	118	80	111	90	78	134	1,220
575280	Dues/Membership Deductible	7,145	1,452	1,537	1,235	895	1,997	1,402	778	2,291	1,193	(912)	2,895	22,509
575281	Dues/Membership Nondeductible										7			7
575320	Electricity	4,630	4,041	2,072	3,132	3,833	3,408	3,858	3,193	3,815	3,481	3,253	4,140	42,856
575340	Employee Expense P/R JE	14,868	17,361	20,841	20,689	23,693	22,426	16,837	14,075	15,666	25,097	21,651	18,086	231,290

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575342	Employee Exp Conf/Registration	1,408	1,802	2,080	3,727	2,718	1,386	897	1,224	1,393	536	36	2,090	19,297
575350	Meals Deduct	2,626	121	2,146	2,211	1,736	1,832	1,405	2,202	1,944	1,576	1,543	1,495	20,838
575351	Meals Non Deduct	2,626	124	2,143	1,754	1,742	1,848	1,429	2,210	1,960	1,596	1,559	1,391	20,381
575420	Forms		437	264	22				6	11	110	8	208	1,067
575460	Grounds Keeping	31	32	4	13	77	37	36	27	27	16	11	58	368
575480	Heat - Oil/Gas	132	290	177	70	516	247	145	147	184	134	138	218	2,399
575500	Janitorial	1,366	1,357	519	991	1,115	934	1,109	837	1,113	969	871	1,611	12,793
575610	Merger Transactional Costs						1	(0)			1			2
575620	Office & Admin Supplies	6,520	5,627	5,645	6,278	5,359	6,174	5,860	4,620	7,085	5,520	4,822	6,665	70,174
575625	Overnight Shipping	1,442	1,453	303	953	1,193	1,448	1,137	742	1,054	924	819	1,245	12,714
575640	Penalties Nondeductible	333	(3)	59	0	(45)		2	2	141	2	2	2	498
575660	Postage	1,504	1,871	(463)	908	1,132	778	1,066	790	1,104	848	702	1,303	11,542
575670	Relocation Expenses	2,063	(49)	1,257	2,007	1,635	1,428	8,436	7,941	2,965	5,526	13,172	43,129	89,512
575680	Research and Development Expense													18
575710	Security Service	418	513	41	404	327	369	320	221	305	242	214	362	3,734
575715	Software Licenses & Support	2,952	1,463	3,171	1,464	672	2,687	5,500	4,245	629	4,067	4,682	5,521	37,053
575740	Telephone	5,783	13,697	7,120	8,463	9,537	6,091	7,815	6,160	6,877	6,172	7,062	7,681	92,459
575741	Cell Phone	3,854	(1,164)	6,656	3,158	2,969	2,108	2,610	2,841	2,510	2,732	2,808	2,754	33,834
575742	Data Lines	6,233	6,758	1,535	4,410	5,056	3,882	5,354	3,684	5,152	4,130	3,592	6,125	55,910
575743	Wireless Service 1st	(49)												(49)
575775	Trade Shows	521	351	-	175	237	567	331	(155)	210	2,447	1,098	235	6,017
575780	Trash Removal	175	187	58	113	141	120	136	94	142	122	113	182	1,584
575998	PCard Undistributed	794	(138)	3,269	(1,210)	(1,413)	3,266	(1,853)	(1,133)	(2,266)	1,836	(2,301)	(1,035)	(2,184)
675000	Misc Maintenance	28,403	30,372	6,200	18,480	20,858	29,442	22,294	16,195	20,708	19,615	14,157	25,768	252,491
675250	Comp Equip Hardware	366	321	225	562	(31)	210	223	416	356	210	(19)	706	3,545
675350	HVAC Equipment	552	434	73	411	315	381	249	443	298	260	536	4,293	4,293
675450	Office Equipment	18	42	4	88	14	10	91	10	14	11	86	(210)	178
680112	Depreciation Exp Non-Utility	90,286	(18,551)	87,917	88,141	101,590	97,969	99,228	94,971	101,632	97,970	104,053	109,959	1,050,165
685200	Property Taxes	341	366	69	235	270	260	286	193	270	218	190	326	2,966
685320	FUTA	284	351	293	219	289	285	296	285	304	279	316	281	3,482
685325	FICA	29,940	38,761	30,837	23,116	30,416	30,034	31,210	30,063	31,998	29,423	33,350	29,649	368,797
685350	SUTA	1,569	1,936	1,617	1,225	1,594	1,574	1,635	1,575	1,677	1,542	1,747	1,553	19,245
685430	Other Taxes and Licenses	24	122	3	73	21	8	59	8	11	19	8	13	368
690110	FIT-Current	3,502	3,761	714	2,420	2,776	2,065	2,939	1,988	2,771	2,239	1,955	3,352	30,482
690120	FIT-Prior Year Adjustment	10,083	10,826	2,056	6,967	7,991	5,943	8,460	5,724	7,978	6,444	5,628	9,649	87,749
690210	SIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
690220	SIT-Prior Year Adjustment	2,985	2,894	830	1,862	1,856	1,589	2,262	1,530	2,133	1,723	1,505	2,579	23,748
890610	Def FIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
890620	Def FIT-Pr Yr Adjustment	(9,716)	(10,432)	(1,982)	(6,713)	(7,700)	(5,727)	(8,152)	(5,516)	(7,688)	(6,210)	(5,424)	(9,298)	(84,559)
890640	Def FIT-Norm Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
890650	Def FIT-Other	(3,938)	(4,228)	(803)	(2,721)	(3,121)	(2,321)	(3,304)	(2,235)	(3,116)	(2,517)	(2,196)	(3,768)	(34,268)
890710	Def SIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
890720	Def SIT-Pr Yr Adjustment	(2,593)	(2,784)	(529)	(1,792)	(2,055)	(1,528)	(2,176)	(1,472)	(2,052)	(1,657)	(1,447)	(2,482)	(22,567)
890750	Def SIT-Other	(84)	(91)	(17)	(58)	(67)	(50)	(71)	(48)	(67)	(54)	(47)	(81)	(734)
710500	Interest Income-Inside	(59)	(63)	(12)	(41)	(47)	(35)	(49)	(33)	(47)	(38)	(33)	(56)	(513)
721304	Gains/(Losses) NUP Disposals	697	748	142	481	552	411	585	396	551	445	389	667	6,064
722306	Gains Other Non-OR	7,979	(3,867)	(5,478)	7,333	6,372	6,272	1,791	6,678	4,701	5,180	614	4,941	42,516
760100	Donations Deduct			4										4
810300	Interest Cap Lease-Outside					14	14	13	13	12	12	11	10	99
810301	Interest Cap Lease-AW02	20,750	22,024	6,275	15,004	27,670	12,585	18,403	12,756	16,725	13,918	12,393	19,523	198,026
830100	Interest STD Inside	255	273	52	176	202	150	214	144	201	163	142	244	2,215
840000	Other Interest Expense	246	2,287	101	9	(49)	7	0	0	0	0	0	0	2,602
Total O&M Expenses		1,038,121	871,219	819,153	980,891	1,000,772	986,995	1,021,680	969,027	1,082,322	1,083,470	1,047,868	1,203,471	12,104,988
Capitalized Costs		83,990	120,397	96,616	119,147	124,010	143,381	103,841	98,391	100,382	97,582	127,318	107,536	1,322,591
Total Service Company Charges		1,122,111	991,617	915,769	1,100,037	1,124,782	1,130,375	1,125,521	1,067,417	1,182,704	1,181,052	1,175,186	1,311,007	13,427,579



ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343  
AND DOCKET NO. SW-01303A-09-0343

SURREBUTTAL TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 15, 2010

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

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IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, AN ) DOCKET NO. W-01303A-09-0343  
ARIZONA CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS RATES )  
AND CHARGES BASED THEREON FOR UTILITY )  
SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS )  
SUN CITY WATER DISTRICT )

---

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, AN ) DOCKET NO. SW-01303A-09-0343  
ARIZONA CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES IN ITS RATES )  
AND CHARGES BASED THEREON FOR UTILITY )  
SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER )  
DISTRICT, ITS SUN CITY WASTEWATER DISTRICT )  
AND ITS SUN CITY WEST WASTEWATER DISTRICT )

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SURREBUTTAL  
TESTIMONY  
OF  
RALPH C. SMITH  
ON BEHALF OF THE  
RESIDENTIAL UTILITY CONSUMER OFFICE  
APRIL 15, 2010

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1     **I.     INTRODUCTION**

2     **Q.     Please state your name, position and business address.**

3     A.     Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC,  
4            15728 Farmington Road, Livonia, Michigan 48154.

5  
6     **Q.     Are you the same Ralph C Smith who previously filed direct testimony in this**  
7            **proceeding?**

8     A.     Yes. I previously filed direct testimony on behalf of the Residential Utility Consumer  
9            Office ("RUCO").

10  
11    **Q.     What is the purpose of the surrebuttal testimony you are presenting?**

12    A.     The purpose of my surrebuttal testimony is to respond to the rate base, adjusted net  
13            operating income and revenue requirement issues addressed in the rebuttal testimony filed  
14            by Arizona-American Water Company ("Arizona-American", "AAWC," or "Company").

15  
16    **Q.     Have you prepared any exhibits to be filed with your testimony?**

17    A.     Yes. Attachments RCS-6 through RCS-8 contain the results of my analysis and copies of  
18            selected documents that are referenced in my testimony, respectively.

19  
20    **II.    REVENUE REQUIREMENT**

21    **Q.     What issues are addressed in your surrebuttal testimony?**

22    A.     My testimony addresses the Company's proposed revenue requirement and selected other  
23            issues.

1  
2 **Q. What revenue increase was originally requested by AAWC?**

3 A. For the districts included in its current filing, AAWC is requesting an increase in base rate  
4 revenues of \$20.498 million, or approximately 56 percent over adjusted revenues at  
5 current rates as shown in the following table:

Summary of Requested Rate Increases per Company in its Direct Filing

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$ 7,268,177	\$2,531,127	\$7,060,837	\$2,156,882	\$ 1,480,756	\$ 20,497,779
Adjusted Current Revenues	\$ 7,210,624	\$9,125,203	\$8,634,567	\$5,933,970	\$ 5,660,389	\$ 36,564,753
% Change	100.80%	27.74%	81.77%	36.35%	26.16%	56.06%

6  
7  
8 The requested revenue amount is from Company Schedule A in AAWC's filing and is  
9 also shown on RUCO Schedule A on Attachments RCS-6 and RCS-7.

10  
11 **Q. Has AAWC revised its proposed revenue increase in its rebuttal filing?**

12 A. Yes. AAWC witness Broderick's rebuttal testimony at page 1, indicates that AAWC is  
13 now seeking a total revenue increase of \$16.583 million or 44.8<sup>1</sup> percent. Page 4 of his  
14 rebuttal lists the increased revenue that AAWC is now seeking for each district. In its  
15 rebuttal testimony, AAWC adopted some Staff and RUCO recommendations. AAWC's  
16 rebuttal reflects the following company-requested revenue increases.

17  

---

<sup>1</sup> The combined percentage increase does not calculate exactly to the summary table shown below.

Summary of Requested Rate Increases per Company - Per Rebuttal

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$ 5,962,687	\$ 2,026,980	\$ 5,308,323	\$ 1,858,070	\$ 1,426,944	\$16,583,004
Adjusted Current Revenues	\$ 7,220,094	\$ 9,125,203	\$ 8,634,509	\$ 5,934,616	\$ 5,660,389	\$36,574,811
% Change	82.58%	22.21%	61.48%	31.31%	25.21%	45.34%

**Q. What revenue increase does RUCO recommend?**

A. RUCO recommends a revenue increase on adjusted fair value rate base, for each AAWC division, of no more than the amounts listed in the following table:

Summary of RUCO Recommended Rate Increases By District

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	\$ 5,296,426	\$ 682,709	\$5,085,007	\$1,513,691	\$ 783,855	\$ 13,361,688
Adjusted Current Revenues	\$ 7,220,082	\$9,125,203	\$8,634,567	\$5,933,970	\$ 5,660,389	\$ 36,574,211
% Change	73.36%	7.48%	58.89%	25.51%	13.85%	36.53%

Details of how these amounts of revenue deficiency were derived are shown in Attachments RCS-6 and RCS-7 to my surrebuttal testimony. The revenue deficiency for each water district is presented in Attachment RCS-6 on the respective "Schedule A" for that district. A "Schedule A" has also been presented for the total water districts and, separately, the total wastewater districts, for which rate increases have been sought by AAWC in the current rate case. Attachment RCS-7 presents similar information for each wastewater district.

1  
2 **Q. How have you designated the districts on Attachments RCS-6 and RCS-7?**

3 A. I have used the following designations for the districts on Attachment RCS-6:

4 "(A)" for Anthem Water

5 "(SC)" for Sun City Water

6 I have used the following designations for the districts on Attachment RCS-7:

7 "(AAF)" for Anthem/Agua Fria Wastewater

8 "(SC)" for Sun City Wastewater

9 "(SCW)" for Sun City West Wastewater

10 These are the same district designations used in Attachments RCS-2 and RCS-3,  
11 respectively, which were filed with my direct testimony.

12  
13 **III. RATE BASE**

14 **Q. Have you prepared updated schedules that summarize RUCO's proposed**  
15 **adjustments to rate base?**

16 A. Yes. As noted above, in Attachments RCS-6 and RCS-7, respectively, for each district,  
17 and in summary for the water systems and, separately, for the wastewater districts  
18 included in AAWC's filing, I have prepared an updated Schedule B, which shows the rate  
19 base originally requested by AAWC, RUCO's updated adjustment and RUCO's adjusted  
20 rate base. The adjustments to AAWC's proposed rate base are shown on Schedule B.1. A  
21 comparison of the Company's proposed rate base and RUCO's recommended rate base,  
22 by district, is presented below:

### Rate Base Summary - Water and Wastewater Districts

District	Per Company		Difference
	As-Filed	Per RUCO	
Anthem Water	\$ 57,430,025	\$ 57,259,174	\$ (170,851)
Sun City Water	\$ 28,186,063	\$ 26,215,284	\$ (1,970,779)
Subtotal -Water	\$ 85,616,088	\$ 83,474,458	\$ (2,141,630)
 Anthem/Agua Fria Wastewater	 \$ 47,735,732	 \$ 45,264,942	 \$ (2,470,790)
Sun City Wastewater	\$ 14,764,087	\$ 14,596,027	\$ (168,060)
Sun City West Wastewater	\$ 17,821,272	\$ 18,098,016	\$ 276,744
Subtotal -Wastewater	\$ 80,321,091	\$ 77,958,985	\$ (2,362,106)
 Total Rate Base	 \$ 165,937,179	 \$ 161,433,443	 \$ (4,503,736)

### Plant Adjustments

Q. What response did AAWC provide in its rebuttal to the two adjustments to AAWC's requested plant in service that you had recommended in your direct testimony?

A. AAWC disagreed with my first adjustment, B-1, which affects only the Sun City Water district, and removes an item of post-test year plant that AAWC had requested.<sup>2</sup> The Company agreed with my second adjustment, B-2, which affects only the Agua Fria Wastewater district, and removes the cost of two effluent pumps that had been retired during the test year.<sup>3</sup>

Q. In its rebuttal did AAWC also adopt a number of adjustments to Plant in rate base that Staff had recommended?

A. Yes.

<sup>2</sup> See, e.g., Broderick rebuttal at pages 8-9; Gross rebuttal at pages 1-2.

<sup>3</sup> See, e.g., Murrey rebuttal.

**B-1 Post Test Year Plant – Sun City Water**

**Q. Please explain why the Company's request to include in the Sun City Water rate base plant that was not in service during the test year should be rejected.**

A. The Company has proposed to include in rate base the cost for a new well that was placed into service on May 27, 2009, at an amount of \$1.587 million. This amount should be removed because it was not in service during the test year and because AAWC has failed to demonstrate special or unusual circumstances to justify inclusion of the post test year plant additions in rate base.

**Q. Please elaborate on why post test year plant should be removed in the current AAWC rate case.**

A. The test year is the one-year historical period used in determining rate base, operating income and rate of return. Commission's rules at A.A.C. R14-2-103(A)(3)(p) require the end of the test year to be the most recent practical date available prior to the filing. A utility has the freedom to choose a test year that includes all major rate base and operating income items needed to support its rate application, and to include pro forma adjustments to its test year. The "matching" concept is a fundamental principle of accounting and ratemaking. The absence of matching distorts the coordination the elements of the ratemaking formula, and can adversely affect the fairness and reasonableness of rates. My understanding is that the Commission has only allowed inclusion of post test year plant in special and unusual circumstances that warranted such recognition. Decision No. 71410, at page 20, cites the following two types of situations that have warranted rate base recognition of post-test year plant:

1                   (1) *when the magnitude of the investment relative to the utility's total investment is*  
2                   *such that not including the post test year plant in the cost of service would*  
3                   *jeopardize the utility's financial health; and*

4                   (2) *when certain conditions exist as follows:*

5                   (a) *the cost of the post test year plant is significant and substantial;*

6                   (b) *the net impact on revenue and expenses for the post test year plant is known*  
7                   *and insignificant or is revenue-neutral; and*

8                   (c) *the post test year plant is prudent and necessary for the provision of services*  
9                   *and reflects appropriate, efficient, effective, and timely decision-making.*

10                  In the current rate case, AAWC has not demonstrated special or unusual circumstances to  
11                  justify inclusion of the post test year plant additions in rate base. The \$1.587 million is  
12                  not of such magnitude to AAWC such that not including it would jeopardize the utility's  
13                  financial health. As a portion of AAWC plant of the districts included in the current  
14                  filing, the \$1.587 million is approximately 1.06 percent of the Gross Utility Plant in  
15                  Service of \$149,301,020 that AAWC proposed in its initial filing for the water districts,  
16                  and is only 0.47 percent of the combined total water and wastewater Gross Utility Plant in  
17                  Service in AAWC's filing, as shown in the following table:  
18  
19

**Sun City Well No. 5.1 As Percent of Total Plant in Service  
For AAWC Districts Included in the Current Rate Case**

Description	Amount	Item
Gross Utility Plant in Service		
Water Districts in the Current AAWC Case	\$ 149,301,020	A
Wastewater Districts in the Current AAWC Case	\$ 191,762,219	
Combined Gross Utility Plant in Service	<u>\$ 341,063,239</u>	B
AAWC Proposed Post-Test Year Additions to Plant - Well 5.1 - Sun City Water	<u>\$ 1,587,149</u>	C
Percent of Combined Water Plant	<u>1.06%</u>	C/A
Percent of Combined Water and Sewer Plant	<u>0.47%</u>	C/B
<u>Notes and Source</u>		
AAWC Filing, Schedule B-1		

The districts in the current AAWC rate filing only represent a portion of AAWC's total investment in Gross Utility Plant in Service, so the percent of the AAWC total company amount represented by the \$1.587 million post-test year plant item is even smaller.

**Q. Was a similar AAWC-proposed adjustment for post test year plant rejected by the Commission in AAWC's last rate case?**

A. Yes. In AAWC's last rate case, for reasons similar to those stated above, in Decision No. 71410 for Agua Fria Water, Mohave Water and Mohave Wastewater, the Commission removed AAWC's request for post test year plant.

**Q. What adjustment is needed?**

A. This adjustment is shown on Attachment RCS-6, Schedule B-1, and reduces rate base by \$1.587 million to remove post-test year plant for the Sun City Water district.

1  
2 **Q. Is there a related adjustment to expense?**

3 A. Yes. As shown on Attachment RCS-6, Schedule C-16, Arizona-American's proposed  
4 depreciation expense for Sun City Water is reduced by \$36,961 based on applying the  
5 applicable depreciation rates to the plant adjustment. I discuss this related adjustment to  
6 depreciation expense in a subsequent section of my testimony.  
7

8 **B-2 Agua Fria Wastewater – Retirement of Two Effluent Pumps**

9 **Q. Has AAWC accepted your recommended adjustment of plant in service for the Agua**  
10 **Fria Wastewater for the Retirement of Two Effluent Pumps?**

11 A. Yes, as indicated in AAWC witness Murrey's rebuttal testimony at page 6.  
12

13 **B-3 CIAC in CWIP (All Districts Except Sun City West Wastewater)**

14 **Q. Has AAWC accepted your recommended adjustment relating to CIAC in CWIP?**

15 A. Yes. Initially, the Company contended that Contributions in Aid of Construction  
16 ("CIAC") associated with Construction Work in Progress ("CWIP") should not be  
17 deducted from rate base, because there is no offsetting plant in rate base. RUCO and Staff  
18 made adjustments to reflect the full amount of CIAC as a deduction from rate base. This  
19 is necessary and appropriate because it is the Company's choice whether to accept plant or  
20 funds from developers, and if the Company chooses to accept plant, then the Company is  
21 not expending funds for the plant and thus has funds for other uses. Additionally, the  
22 Company's position is contrary to traditional ratemaking practices and contrary to the  
23 National Association of Regulatory Utility Commissioners ("NARUC") definition of

1 CIAC, which does not distinguish between CIAC associated with CWIP and CIAC  
2 associated with plant in service. AAWC witness Murrey's rebuttal testimony at pages 5- 7  
3 indicates that AAWC has accepted the Staff and RUCO adjustments "because the amounts  
4 are immaterial and the Company has improved its accounting for developer projects to  
5 eliminate this inconsistency in the future." However, this adjustment should be adopted  
6 for the reasons stated in my direct testimony and in Decision No. 71410 where the  
7 Commission stated at pages 27-28 that:

8 We agree with RUCO and Staff that the Company's choice whether to  
9 accept plant or funds from developers is irrelevant, and does not change the  
10 nature of AIAC or CIAC. The evidence in this case does not persuade us to  
11 depart from the traditional ratemaking treatment of deducting AIAC and  
12 CIAC from rate base. The adjustments recommended by RUCO and Staff  
13 will be adopted.  
14

15 **Q. What adjustment is necessary in the current AAWC rate case?**

16 **A.** As shown on Attachment RCS-6, Schedule B-3, rate base should be reduced by \$138,495  
17 in total, and by the amounts shown there, and listed below for each district:  
18

Summary of Adjustments to CIAC

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (30,271)	\$ (38,991)	\$ (65,490)	\$ (3,743)	\$ ~	\$ (138,495)

21 **B-4 Cash Working Capital (All Districts)**

22 **Q. What cash working capital ("CWC") issues do you address in your surrebuttal**  
23 **testimony?**

A. I respond to AAWC's rebuttal testimony on the revenue lag and affiliated payment issues. I also have adopted certain adjustments that were recommended by Staff to which AAWC has agreed in its rebuttal. Finally, I have updated the CWC calculation to reflect revisions to expenses.

**1. Revenue Lag**

**Q. What is the function of a revenue lag in a lead/lag study?**

A. The revenue lag is supposed to measure, on average, the time between (a) the provision of service and (b) the receipt of payment for service. It typically is comprised of three sub-component lags: (1) the service period lag, (2) the billing lag, and (3) the collection lag.

**Q. What revenue lags did AAWC use in its lead/lag study?**

A. The revenue lags used by AAWC for each district is summarized in the table below:

Summary of Revenue Lag as calculated by AAWC					
Revenue Lag Component	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Service Period Lag	15.148	15.219	15.248	15.335	15.394
Billing Lag	4.875	4.426	4.711	4.317	4.216
Collection Lag	26.082	26.082	26.082	26.091	26.018
<b>Total Revenue Lag Days</b>	<b>46.105</b>	<b>45.727</b>	<b>46.040</b>	<b>45.743</b>	<b>45.628</b>

The Company's lead lag study uses a collection lag, by service area, ranging from 26.018 days to 26.091 days. This effectively assumes that customers, on average, throughout the year, are not complying with the payment terms. The payment terms are supposed to be reflected in the dates printed on the customers' bills and with the terms of AAWC's tariff. As discussed in more detail below, the due date for payment of billings for water and wastewater service is 20 days and does not differ by the type of customer.

1  
2 **Q. Please identify the components of the Revenue Lag proposed by AAWC and which of**  
3 **those components indicate inefficiency?**

4 A. The Revenue Lag is comprised of these three components: (1) Service Period; (2) Billing  
5 Lag; and (3) Collection Lag. AAWC's Service Period lag of approximately 15.2 days is  
6 comparable to other utilities that bill customers monthly, and I am not taking issue with  
7 the Company's Service Period lag.

8 However, the components of the Revenue Lag proposed by AAWC that indicate  
9 inefficiency are the Billing Lag and the Collection Lag. An adjustment needs to be made  
10 to AAWC's total proposed Revenue Lag to address this, otherwise ratepayers would be  
11 required to pay an extra return on rate base caused by inefficiency in billing and  
12 collection.

13 The total proposed Revenue Lag proposed by AAWC is longer than for other  
14 Arizona utilities that use monthly billing and which have utilized lead-lag studies.

15  
16 **Q. How does the Company attempt to justify its total revenue lags that exceed 45 days**  
17 **for each district?**

18 A. AAWC witness Gutowski bases AAWC's justification for the long revenue lags proposed  
19 by the Company on the following:

- 20 • The Commission has accepted the Company's calculation of Revenue Lag in prior  
21 cases without question.<sup>4</sup>  
22 • Charge offs have increased.<sup>5</sup>

---

<sup>4</sup> Gutowski rebuttal, page 8, lines 17-18.

- 1           • For the Collection Lag, AAWC divided Accounts Receivable Balances per day by
- 2           365 days.<sup>6</sup>
- 3           • The Company has a late payment fee, “[b]ut the late payment penalty was never
- 4           designed to be a money maker, or to compensate the Company for the delayed
- 5           receipt of revenue.”<sup>7</sup>
- 6           • The Commission should ignore the more efficient (shorter) Billing Lag period used
- 7           by other Arizona utilities, and should accept AAWC’s lag because it was
- 8           calculated the same way it always has been, billing date minus read date.<sup>8</sup>

9

10   **Q.    Should the fact that the Commission accepted something a utility did in a prior case**  
11   **that was not questioned require that things must be done the same way, if**  
12   **comparative information demonstrates that a utility is inefficient and the extra costs**  
13   **to ratepayers resulting from the comparative inefficiency are currently being**  
14   **questioned?**

15   **A.    I would hope not. Apparently, AAWC has gotten away with using an excessively long**  
16   **Revenue Lag in prior rate cases, and that may not have been questioned. Usually there are**  
17   **many issues in a utility rate case, and every aspect of a utility’s filing, including ones that**  
18   **cause extra costs to be unnecessarily charged to ratepayers, are not always challenged in**  
19   **every case. It is basically by looking at utility lead-lag study detail in a series of recent**  
20   **Arizona utility rate cases, involving utilities that bill their customers monthly, that the**  
21   **inefficiently long Revenue Lag proposed by AAWC in the current case, came to my**

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<sup>5</sup> Id, lines 22-24.

<sup>6</sup> Gutowski rebuttal, page 9.

<sup>7</sup> Id.

<sup>8</sup> Id.

1 attention. AAWC seems to be saying that it cannot improve its Billing Lag or Collection  
2 Lag, to produce a Revenue Lag that is comparable to what several other Arizona utilities  
3 have achieved. AAWC thus apparently believes that it should be allowed to continue to  
4 include additional amounts of cash working capital in rate base related to its excessive  
5 Revenue Lag and thereby earn higher returns for its investors based on such inefficiency.  
6 AAWC's position thus rewards shareholders and penalizes ratepayers for Company  
7 inefficiency in managing its Revenue Lag, similar to what other Arizona utilities have  
8 achieved.

9  
10 **Q. Why should AAWC's excessive Revenue Lag be adjusted in the current AAWC rate**  
11 **case?**

12 **A.** I have brought this issue to the Commission's attention in the current AAWC rate case,  
13 and have calculated a recommended remedy that should provide the appropriate regulatory  
14 incentives. By adopting my recommended adjustment to AAWC's Revenue Lag,  
15 ratepayers will no longer be charged for an extra return on rate base caused by AAWC's  
16 inefficiency. Additionally, this should help motivate AAWC to look for ways to improve  
17 its Billing Lag and Collection Lag, to produce a total Revenue Lag that is comparable to  
18 that of the other Arizona utilities that I cited in my direct testimony.

19  
20 **Q. Please respond to Ms. Gutowski's comment that charge offs have increased.**

21 **A.** Uncollectibles have increased because of the economic downturn, which has made it more  
22 difficult for customers to pay. I am not disputing Ms. Gutowski's representation that  
23 charge-offs have increased. What I am disputing about Ms. Gutowski's position,

1           however, is that this represents a valid reason for failing to adjust Cash Working Capital in  
2           the current AAWC rate case.

3           Uncollectibles should be removed from the Cash Working Capital calculation.  
4           AAWC has agreed with a Staff adjustment to remove Bad Debt Expense from the CWC  
5           calculation. Bad Debt Expense is another term for uncollectibles.

6           The other aspect to Uncollectibles and how it affects Cash Working Capital should  
7           also be adjusted. This other aspect of Uncollectibles relates to how long a Company  
8           carries uncollectible accounts in Accounts Receivable before they are written off or  
9           covered by a reserve for Uncollectibles. Recall that AAWC computed its Revenue Lag by  
10          dividing Accounts Receivable by 365 days to determine Average Daily Accounts  
11          Receivable. Accounts that eventually become uncollectible can distort the Revenue Lag if  
12          they are included in Accounts Receivable for lengthy periods of time without having an  
13          adequate reserve established.

14  
15       **Q. By adjusting the Revenue Lag in the manner in which you have recommended, does**  
16       **that ameliorate this other aspect of Uncollectibles from overstating the CWC**  
17       **allowance?**

18       **A.** Yes. By adjusting the Revenue Lag in the manner in which I have recommended, this  
19       helps ameliorate the impact of including accounts that eventually become uncollectible in  
20       the Accounts Receivable balance that AAWC used to derive its Collection Lag portion of  
21       the Revenue Lag. The cash revenue received by the utility is paid to it by the customers  
22       who pay their bills. Adjusting the Revenue Lag in the manner in which I have  
23       recommended assures that the Revenue Lag is not overstated because of Uncollectibles

1 being carried in Accounts Receivable. It reflects an allowance for the Collection Lag  
2 based on the receipt of cash Revenue from the customers who pay their bills, on average,  
3 by the due date. For customers who pay their utility bills but who do not pay by the due  
4 date, AAWC charges and records late payment fee revenue.

5  
6 **Q. Please respond to Ms. Gutowski's comment that "the late payment penalty was never**  
7 **designed to be a money maker, or to compensate the Company for the delayed**  
8 **receipt of revenue."**

9 **A.** Ms. Gutowski has not presented any evidence of which I am aware which demonstrates  
10 the Company's late payment charge of 1.5 percent is insufficient. Late payment fees are  
11 typically implemented to provide compensation from the cost causative customers for the  
12 Company's financing cost for the cost of money for customers who pay their bills but who  
13 pay late. One of the objectives of late payment fees is to encourage the customers, who  
14 are going to pay their bills, to pay on a timely basis, i.e., to remit payment by the due date  
15 and thereby avoid the late payment fee.

16 If the Company were able to demonstrate that its late payment charges are  
17 insufficient to cover the Company's financing cost for the cost of money for customers  
18 who pay their bills but who pay late (which AAWC has apparently not done in the current  
19 rate case), this would raise a rate design issue. As a rate design issue, it could  
20 appropriately be addressed, if necessary, by revising the level of late payment fee.

21 However, the point with respect to the CWC calculation is that the Company does  
22 have a late payment fee and if the Company believes that it is not covering the appropriate

1 costs, this is not a valid reason for allowing an inefficiently long Revenue Lag and  
2 increasing the rate base for Cash Working Capital.

3  
4 **Q. Why should the Commission consider the information on the Revenue Lags of the**  
5 **Arizona utilities that you presented in your direct testimony?**

6 A. This information should be considered because the other utilities bill customers monthly,  
7 similar to AAWC, and it reflects their achieved level of efficiency in the Billing Lag and  
8 Collection Lag components of the Revenue Lag that should be expected of AAWC. If  
9 AAWC management chooses not to address inefficiencies in its Billing Lag or Collection  
10 Lag that are causing it to have an overall longer Revenue Lag than other Arizona utilities,  
11 the extra cost of that additional lag should be borne by shareholders, not ratepayers.

12  
13 **Q. Are the Revenue Lags used by AAWC appropriate?**

14 A. No. The collection lag period used by AAWC is excessive and would penalize all  
15 customers, including the vast majority of customers that pay their utility bills on time, for  
16 the minority of customers who either pay their bills late or do not pay at all (i.e., whose  
17 bills become uncollectible).

18  
19 **Q. In order to address the impact of accounts that becoming uncollectible on the**  
20 **average Accounts Receivable balances for each district, did you request and did**  
21 **AAWC provide Accounts Receivable aging reports?**

22 A. Such Accounts Receivable aging reports were requested in RUCO 2-74. However,  
23 AAWC's response to RUCO 2-74(j) stated that: "The aging reports are deleted from the

1 system after a short period of time. We are investigating what is required to to (sic)  
2 restore the aging reports by district. The reports are available for the Company as a whole,  
3 but not at the district specific level of detail. If the Company as a whole would suffice,  
4 please let the me (sic) know.”

5  
6 **Q. Without the district aging reports that AAWC could not provide, it is possible to**  
7 **reasonably adjust the collection lag?**

8 A. Yes. A reasonable adjustment to the collection lag can be made by applying the 20 day  
9 due date period as the maximum collection lag that would apply for customers who, on  
10 average, pay their utility bills on time.

11  
12 **Q. Please explain why an adjustment for the revenue collection lag is needed.**

13 A. The Company's lead-lag study uses an unreasonably long revenue lag because its revenue  
14 collection lag extends well beyond the bill payment period. The Company's revenue lag  
15 is also excessive in comparison with other Arizona utilities that bill customers monthly.  
16 For purposes of its lead-lag study, the Company effectively assumes that customers, on  
17 average, are paying their bills late, i.e., are on average not paying their bills by the due  
18 date printed on the bills. Uncollectibles and late payments should be excluded from the  
19 calculation of Cash Working Capital. Before amounts are written-off as uncollectible, the  
20 Company may carry such amounts on its books in Accounts Receivable for several  
21 months, thus distorting the revenue collection lag for customers who, on average, pay their  
22 bills on time. Additionally, bad debt recoveries may be eventually collected several  
23 months after the rendering of the initial bill. Including write-offs and recoveries in the

1 determination of the revenue collection lag, however, can result in a distortion of the time  
2 when normal paying customers pay their bills for the water and sewer utility service. A  
3 more reasonable expectation, and one that excludes the potentially distortive impact of  
4 uncollectibles on the collection lag, is that customers, on average, pay their bills for water  
5 and sewer utility service on or before the due date printed on the bill. Moreover, the  
6 Company charges late fees and receives late fee revenue from the customers who pay their  
7 bills late.

8  
9 **Q. Please explain how you calculated the adjustment for the revenue lag on each**  
10 **respective Schedule B-4, of Attachments RCS-6 and RCS-7.**

11 A. I used a maximum period of 20 days for the revenue collection lag for each Arizona  
12 district that AAWC had included in its lead-lag study. This assures that the collection lag  
13 portion of the revenue lag is not overstated in comparison with the terms provided in the  
14 Company's tariff for the payment of the billed revenue. Uncollectibles are removed from  
15 cash working capital because they are a non-cash expense. Before they become  
16 uncollectible, billed revenue amounts may be carried on the company's books as an  
17 account receivable for some time, perhaps even for several months, thus adding to the  
18 revenue collection lag. This necessitates a reasonableness check on the collection lag that  
19 reflects the timely payment of revenues that are collected.

20 As stated in the response to RUCO 2-74(b) and (c), the customer bills issued by  
21 AAWC states when the bill is due, and "due dates are 20 days after the billing date and it  
22 does not differ by type of customer." Moreover, customers are subject to a late charge if

1 payment is made late. As stated in the response to RUCO 2-74(e): "Customers are subject  
2 to a 1-1/2% late charge. It begins by being posted to the account on day 21."

3 For computing the revenue collection lag, I have therefore used the 20 days as the  
4 maximum period, on average, which revenue collection should be occurring, without the  
5 potentially distortive impact of uncollectible write-offs. This adjustment resulted in the  
6 revised revenue lags for each service district as follows:

Adjusted Revenue Lag Days with 20-Day Collection Lag					
Revenue Lag Component	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Service Period Lag	15.148	15.219	15.248	15.335	15.394
Billing Lag	4.875	4.426	4.711	4.317	4.216
Collection Lag	20.000	20.000	20.000	20.000	20.000
<b>Total Revenue Lag Days</b>	<b>40.023</b>	<b>39.645</b>	<b>39.959</b>	<b>39.652</b>	<b>39.610</b>

7  
8  
9 **Q. Why are the Billing Lag days used by AAWC also a concern?**

10 A. The Billing Lag days are supposed to measure the time between the reading of the  
11 customer's meter and the issuance of the bill. With many modern utilities using  
12 automated meter reading and computerized billing software, a Billing Lag exceeding 4  
13 days on average (which is what AAWC is using) also appears to be excessive. The Billing  
14 Lag used by AAWC is therefore also a concern.

15  
16 **Q. Have you calculated a separate adjustment to address the concern with AAWC's  
17 Billing Lag being excessive?**

18 A. No, because adjusting the total Revenue Lag by limiting the Collection Lag to the bill  
19 payment due date, will resolve the overall concern regarding AAWC's proposed revenue

1 lag, and will provide a total Revenue Lag that is comparable, but at the high end, of the  
2 Revenue Lags being used by other large Arizona utilities that bill their customers monthly.

3  
4 **Q. Please summarize how the revenue lags used by AAWC compare with the revenue**  
5 **lags used in recent rate cases by other large Arizona utilities that bill their customers**  
6 **monthly?**

7 **A.** The following table summarizes the revenue lags that have been used in several recent rate  
8 cases:

Revenue Lag			
Typical Arizona Utilities That Use Monthly Billing			
Utility	Docket	Revenue Lag Days	Reference
APS (Arizona Public Service)	E-01315A-08-0172	38.17	A
TEP (Tucson Electric Power)	E-01933A-07-0402	33.79	B
UNS Gas	G-04204A-08-0571	40.70	C
UNS Electric	E-04204A-09-0206	35.59	D
UNS Electric	E-04204A-06-0783	35.59	E
Southwest Gas Corporation	G-01551A-07-0504	39.53	F
Notes and Source:			
[A]: APS workpaper JCL-WP11, p.9			
[B]: TEP Schedule B-5, p. 3			
[C]: UNSG Schedule B-5, p. 3			
[D]: UNSE Schedule B-5, p. 3			
[E]: UNSE filing Schedule B-5, p. 3			
[F]: SWG Schedule B-5, p. 2			

16  
17  
18  
19  
20  
21 The revenue lags used by AAWC of over 45 days are considerably longer than the  
22 comparable revenue lags used in each of these recent rate cases by other large Arizona  
23 utilities that bill their customers monthly.

24  
25 **Q. Please summarize your recommendation for adjusting AAWC's revenue lag and**  
26 **describe how the adjusted revenue lags you are recommending for AAWC compare**

1 with the revenue lags used in recent rate cases by other large Arizona utilities that  
2 bill their customers monthly.

3 A. The adjusted revenue lags I am recommended for AAWC are shown Attachments RCS-6  
4 and RCS-7, Schedule B-4, for each district.<sup>9</sup> The adjusted revenue lags I am  
5 recommending are near or slightly above the high end of the range of revenue lags used  
6 by other large Arizona utilities that bill their customers monthly. This supports the  
7 reasonableness of, and need to use, the revised revenue lags. Also, because the revised  
8 revenue lag days recommended for AAWC are at, or slightly above, the high end of the  
9 range that has been used by other Arizona utilities, this supports viewing their use as the  
10 maximum revenue lag days that would be reasonable to use in determining AAWC's  
11 revenue requirement in this case.

12  
13 2. Service Company Payment Lag

14 Q. What lag did AAWC apply in its lead-lag study for payments of affiliated company  
15 Management Fees?

16 A. AAWC applied a payment lag of 14.7715 days, as shown on line 7 of AAWC's Schedule  
17 B-6, in the "Expense Lag Days" column for each district. However, AAWC indicated in  
18 response to a RUCO data request that it wanted to drastically revise this lag and instead  
19 reflect a pre-payment of the affiliated Management Fees. Specifically, in response to  
20 RUCO 2-75, AAWC has indicated that it pre-pays the affiliated Service Company for  
21 such affiliated Management Fees and wants to revise its filed lead-lag study to reflect a  
22 pre-payment, on average, of 11.25 days. In its rebuttal filing, AAWC has now sought to  
23 include a prepayment of affiliated Service Company charges in its CWC calculation.

---

<sup>9</sup> The adjusted Revenue Lag for each AAWC district being recommended has not changed since my direct testimony.

1  
2 **Q. Does AAWC's rebuttal convince you that a pre-payment of Management Fees to the**  
3 **affiliates be allowed in the lead-lag study?**

4 **A. No. AAWC witness Gutowski addresses this at pages 9-11 of her rebuttal testimony. She**  
5 **claims that the prepayment of affiliate Management Fees should be allowed because:**

- 6 • "the majority of the Service Company bill is paid in Advance"<sup>10</sup>
- 7 • All of the American Water Works operating companies signed a Service Company  
8 agreement in 1989.<sup>11</sup>
- 9 • That Service Company Agreement contains an Article IV, Billing Procedures,  
10 which AAWC apparently believes should dictate the payment lag results for  
11 ratemaking purposes.<sup>12</sup>
- 12 • Not allowing the Service Company prepayment proposed by AAWC in the current  
13 rate case would "increase the Service Company's cost of working capital."<sup>13</sup>
- 14 • The alleged additional Service Company costs "would then be passed back through  
15 the Service Company bill to Arizona in the form of higher Service Company  
16 costs."<sup>14</sup>
- 17 • The Service Company agreement terms are reasonable.<sup>15</sup>
- 18 • The pre-payment of Management Fees to the affiliated Service Company reflects  
19 actual lead days.<sup>16</sup>

<sup>10</sup> See, Gutowski rebuttal, page 10, lines 9-10.

<sup>11</sup> Id, line 13.

<sup>12</sup> Id, lines 13-20.

<sup>13</sup> Id., lines 21-23.

<sup>14</sup> Id, lines 23-25

<sup>15</sup> See, Gutowski rebuttal, page 11, lines 1-2.

<sup>16</sup> Id., lines 4-5.

- “This is the same kind of lead days used in the 2008 Working Capital calculation that was approved as part of Decision 71410.”<sup>17</sup>

**Q. Has AAWC demonstrated that the Service Company agreement it is relying upon was ever approved by the Arizona Corporation Commission for any of the districts at issue in the current AAWC rate case?**

**A. No.** RUCO 2-76 asked the Company, in part: “Has the Commission approved any agreement between AzAWC and the affiliated Service Company? If not, explain fully why not. If so, please identify and provide a complete copy of such agreement. Include all amendments and changes thereto since AzAWC’s last rate case.”

AAWC’s response stated, among other things, that<sup>18</sup>:

Prior approval of an affiliate arrangement is not required in Arizona. **The Company has searched the Commission’s decisions listing and has not been able to locate a case decision in which either the Company requested approval of or such approval was granted of the agreement between Arizona American and the Service Company (“Agreement”). We believe neither has occurred,** but we are not 100% certain at this time whether or not the ACC has approved the Agreement because the Company was providing utility services in Arizona for many years but only in the Paradise Valley district and readily available decisions for the 1990s are not complete.

(Emphasis supplied.)

AAWC included with its response to RUCO 2-76 a copy of the Paradise Valley “Agreement.” Paradise Valley is not among the districts for which revenue increases are being sought in the current AAWC rate case. Consequently, AAWC has not been able to demonstrate that the Arizona Corporation Commission has approved the Service

<sup>17</sup> Id, lines 5-7.

<sup>18</sup> A complete copy of AAWC’s response to RUCO 2-76 is included in Attachment RCS-4.

1 Company Agreement as it applies to any of the AAWC districts covered in the current  
2 AAWC rate case. AAWC should not be allowed to bootstrap a 20-year old affiliate  
3 agreement for Paradise Valley onto the more recently acquired districts whose rates are at  
4 issue in the current AAWC rate case, especially when such an agreement contains terms  
5 that are unreasonable, such as the term pertaining to prepayment of affiliate Management  
6 Fees.

7  
8 **Q. If the Service Company agreement AAWC is relying upon was never approved by**  
9 **the Arizona Corporation Commission for any of the districts at issue in the current**  
10 **AAWC rate case, should it dictate the result for ratemaking purposes as it pertains**  
11 **to the lead-lag study?**

12 A. No. Not only was the Service Company agreement relied upon by AAWC apparently  
13 never approved by the Commission for any of the districts included in the current AAWC  
14 rate case, requiring prepayment of affiliated Management Fee charges would be *prima*  
15 *facie* unreasonable, and such a provision should be rejected in any event for ratemaking  
16 purposes.

17  
18 **Q. Why is prepayment of affiliate Management Fees unreasonable?**

19 A. This is not an arm's length transaction. It is an affiliated transaction. In order to protect  
20 ratepayers from abuses, utility affiliated transactions must be carefully scrutinized. The  
21 prepayment provision in the affiliated Service Company agreement does not pass the  
22 reasonableness test for ratemaking purposes and should therefore be rejected. If AAWC  
23 were obtaining the services from a third party, normal commercially reasonable payment

1 terms would apply. As evidenced by AAWC's payment lags to non-affiliated vendors and  
2 to AAWC's own employees, such terms would not prepay for services before such  
3 services were provided.

4 As an example, AAWC does not pre-pay the salaries and wages for its own work  
5 force. AAWC ratepayers should not be required to pay for extra amounts of return on rate  
6 base for Cash Working Capital that has been produced by an affiliated arrangement that  
7 involves pre-paying for affiliated Service Company payroll just because the employees  
8 providing the service are located in an affiliate for purposes of the overall corporate  
9 organizational structure.

10  
11 **Q. Please respond to Ms. Gutowski's claim that "This is the same kind of lead days used**  
12 **in the 2008 Working Capital calculation that was approved as part of Decision**  
13 **71410."**

14 **A.** If an issue were not identified and contested in a particular rate case, or was overlooked in  
15 a case, apparently AAWC witness Gutowski believes that it should not or cannot therefore  
16 ever be challenged or adjusted in a subsequent rate case, when it is identified and  
17 contested. It does not appear that an issue relating to the prepayment of affiliated  
18 Management Fees was discussed in Decision No. 71410. Moreover, AAWC's own direct  
19 filing in the current AAWC rate case did not reflect a prepayment of affiliated Service  
20 Company charges in AAWC's lead-lag study. It appears that AAWC's reliance upon  
21 Decision No. 71410 for an issue that was not specifically discussed in that decision may  
22 be misplaced.  
23

1 Q. Please respond to Ms. Gutowski's claims that "[n]ot allowing the Service Company  
2 prepayment proposed by AAWC in the current rate case would "increase the Service  
3 Company's cost of working capital" and that the alleged additional Service Company  
4 costs "would then be passed back through the Service Company bill to Arizona in the  
5 form of higher Service Company costs."

6 A. Ms. Gutowski has provided no support for such claims. AAWC has claimed that the  
7 affiliated Service Company was providing services "at cost."<sup>19</sup> In the current AAWC rate  
8 case I have reviewed a number of responses concerning affiliated Management Fee  
9 charges to AAWC, and have not seen a Service Company working capital or return  
10 component clearly set forth in such documentation. If there is some type of working  
11 capital-based return, or other form of shareholder profit, embedded in the affiliated  
12 Management Fee charges to AAWC, this may point to a need for a thorough audit of such  
13 affiliated charges and may necessitate a more detailed examination of the underlying basis  
14 for such charges, especially if such charges include an affiliated company return  
15 component that has not been clearly disclosed and documented by the Company.

16 Finally, it is doubtful at best that a ratemaking adjustment for AAWC's cash  
17 working capital in the current case would have a direct impact on the Service Company's  
18 cost, or that this ratemaking adjustment would cause the affiliated charges from the  
19 Service Company to AAWC for Management Fees or other items to be higher in the  
20 future.  
21

---

<sup>19</sup> See, e.g., Gutowski rebuttal testimony at page 10, line 21.

1 Q. Should a pre-payment of Management Fees to the affiliates be allowed in the lead-lag  
2 study?

3 A. No, it should not.  
4

5 Q. Please explain your recommended Service Company payment lag.

6 A. The payment lag applied to Management Fees paid to the affiliate American Water Works  
7 Service Company ("AWWSC") and/or to other affiliates should be adjusted to  
8 commercially reasonable terms. This substantial affiliated transaction should not be  
9 permitted to unnecessarily increase rate base via the creation of an unreasonable CWC  
10 requirement. In its filed lead-lag study, AAWC reflected a payment lag of 14.7715 days  
11 that appears to be commercially reasonable, in that it is between the payroll lag of 12 days  
12 and the maintenance lag of 33.6 days, and thus is within a range of reasonableness.  
13 However, as stated in response to RUCO 2-75, and in AAWC's rebuttal, AAWC now  
14 seeks a revision to its filed lead-lag study to reflect a pre-payment, on average, for the  
15 Management Fees from the affiliates. This would imply that AAWC pays for affiliated  
16 services, on average, before the affiliated services are provided. AAWC should not be  
17 required to pay for services provided by this affiliate any more rapidly that it would pay  
18 for the services if they had been performed internally. Moreover, if AAWC chooses to  
19 pre-pay for affiliate-provided services, on average, before they are provided, ratepayers  
20 should not be required to pay a return on the increase to AAWC's rate base that relates to  
21 such pre-payment for affiliated services. I have adjusted the CWC associated with  
22 AAWC's payments to the affiliate AWWSC by applying the same 12-day expense lag  
23 associated with AAWC's direct labor costs.

1

2 **Q. What has AAWC said about this adjustment in its rebuttal?**

3 A. As noted above, AAWC witness Gutowski has claimed, among other things, that a 1989  
4 Service Company Agreement between AWWSC and the operating utility company would  
5 require prepayment by the utility of each month's Service Company costs.

6

7 **Q. Was AAWC able to demonstrate that the Arizona Corporation Commission had ever**  
8 **approved the Service Company Agreement as it applies to any of the AAWC districts**  
9 **covered in the current AAWC rate case?**

10 A. No. As noted above, AAWC has not been able to demonstrate that the Arizona  
11 Corporation Commission had ever approved the Service Company Agreement as it applies  
12 to any of the AAWC districts covered in the current AAWC rate case.

13

14 **Q. Even if the Arizona Corporation Commission had approved such a Service Company**  
15 **"Agreement", does that necessitate that a prepayment of affiliate Management Fees**  
16 **should be reflected in the utility's lead-lag study for ratemaking purposes?**

17 A. Apparently, not. The review of what is reasonable for ratemaking purposes typically  
18 occurs when an issue arises in the context of a rate case. As noted in my direct testimony,  
19 the West Virginia Public Service Commission ("PSC") addressed a similar issue in a  
20 recent rate case for one of AAWC's affiliated water companies operating in that  
21 jurisdiction. In West Virginia PSC Case No. 08-0900-W-42T, West Virginia American  
22 Water Company ("WVAWC") presented a similar argument, citing the provisions of its  
23 Service Agreement with AWWSC, and claiming that such Agreement would somehow

1 require WVAWC ratepayers to pay a return on the rate base/CWC impact of such an  
2 affiliated services prepayment arrangement.

3  
4 **Q. How did the West Virginia PSC decide that issue?**

5 A. In its Commission Order dated March 25, 2009, the West Virginia PSC rejected the  
6 arguments presented by the water utility and adopted the adjustment recommended by the  
7 Consumer Advocate Division ("CAD"). Pages 35-36 of the West Virginia PSC's Order  
8 state as follows:

9 The Commission is not persuaded that the CAD recommendation is  
10 unreasonable or requires actions on the part of the Company that violate its  
11 agreement with AWWSC. The agreement allows AWWSC to provide a  
12 current bill 'as soon as practicable' after the last day of each month. It also  
13 provides that AWWSC provide an estimate of the bill for the next month.  
14 However, there is no provision for advance payment of the next monthly  
15 bill. While WVAWC should not act unreasonably in making payments to  
16 AWWSC, a lag comparable with its own payroll lags does not appear to be  
17 unreasonable, while an advance payment does appear to be unreasonable.  
18 The Commission will adopt this CAD adjustment to the Cash Working  
19 Capital.

20  
21 (Emphasis supplied)

22  
23 Consequently, the West Virginia Commission used the 12-day utility labor cost payment  
24 lag for the affiliated Service Company Management Fees in the lead-lag study.

25  
26 **Q. Please summarize your recommended adjustment to AAWC's lead-lag study for the**  
27 **lag for payments to the affiliate AWWSC for Management Fees?**

28 A. The revised lead-lag study presented in AAWC's rebuttal shows the same 12-day lag for  
29 that utility's direct payroll as did WVAWC's lead-lag study. I have applied this same 12-  
30 day lag for the AAWC direct payroll as a reasonable payment lag for payments to the

1 affiliate AWWSC, which provides services to WVAWC as well as AAWC. The use of  
2 AAWC's direct payroll lag as a lag for the affiliated Management Fees charged to AAWC  
3 is reasonable and appropriate whereas a prepayment would be unreasonable, as described  
4 above. A longer payment lag for the affiliated Service Company could potentially be  
5 justified, based on other payments to non-affiliated vendors and service providers.  
6

7 **Q. Please explain why a payment lag longer than 12 days could be reasonable for**  
8 **payments to this affiliate?**

9 A. As shown on AAWC – Anthem Water Schedule B-6, lines 14 and 15, for example,  
10 AAWC's overall weighted lags for Maintenance Expense and Other Operating Expenses  
11 are 33.6 and 30.0 days, respectively. Consequently, applying the 12-day lag for AAWC's  
12 direct payroll<sup>20</sup> as a payment lag for payments to the affiliate AWWSC is probably a bit  
13 conservative.  
14

15 **3. Other Expense Adjustments**

16 **Q. Have you also adjusted Cash Working Capital for each district for your**  
17 **recommended adjustments to operating expenses?**

18 A. Yes. Schedule B-4 for each district on Attachment RCS-6 (for water) and RCS-7 (for  
19 wastewater) also reflects adjustments for operating expense amounts.  
20

---

<sup>20</sup> See, RUCO Attachment RCS-6 and RCS-7, Schedule B-4, line 1, Labor, for each respective district which has a composite weighted payment lag of 12.00 days, meaning that payment is made, on average, 12 days after service is provided.

1 **4. Remove Chemical Expense**

2 **Q. Please explain the adjustment to remove Chemical Expense from the Cash Working**  
3 **Capital calculation.**

4 A. Staff removed Chemical Expense from the calculation of Cash Working Capital because  
5 Chemical Inventory is included in the 13-month average of Materials and Supplies.  
6 AAWC witness Gutowski agreed with this Staff adjustment. I also agree with the Staff's  
7 adjustment and have reflected the removal of Chemical Expense on Schedule B-4 of  
8 Attachments RCS-6 and RCS-7.

9  
10 **5. Remove Uncollectibles**

11 **Q. Please explain the adjustment to remove Bad Debt Expense from the Cash Working**  
12 **Capital calculation.**

13 A. Staff removed Bad Debt Expense from the calculation of Cash Working Capital because it  
14 does not involve a cash outlay, and therefore should have no corresponding expense lag  
15 days. AAWC witness Gutowski agreed with this Staff adjustment. I also agree with the  
16 Staff's adjustment and have reflected the removal of Bad Debt Expense on Schedule B-4  
17 of Attachments RCS-6 and RCS-7 by reflecting 20.31 day lags for Customer Accounting  
18 Expense.

19  
20 **Summary of Cash Working Capital Adjustments**

21 **Q. What is your adjusted Cash Working Capital allowance for each district?**

1 A. My recommended adjusted Cash Working Capital allowance is shown on Attachments  
2 RCS-6 and RCS-7, Schedule B-4 for each district. My recommended adjustment to  
3 AAWC's originally filed request, is summarized in the following table:

4 Summary of Adjustments to Cash Working Capital

5

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (122,000)	\$ (168,000)	\$ (130,000)	\$ (105,000)	\$ (113,000)	\$ (638,000)

6  
7  
8

9 **B-5 Youngtown Plant – Sun City Water**

10 Q. Please explain your adjustment shown on Schedule B-5.

11 A. This adjustment reflects the recommendation made by Staff witness Gerald Becker as it  
12 relates to reconciling items related to the Company's Youngtown Plant ("Youngtown") in  
13 the Sun City water district that Staff noted during its review of AAWC's workpapers in  
14 this proceeding. In response to Staff's inquiry, the Company stated that the amounts  
15 associated with Youngtown relate to a reconciling item between AAWC's books and the  
16 plant balances that were approved in the Company's last rate case. AAWC was unable to  
17 provide sufficient support for this item in this proceeding, thus Staff concluded that it  
18 should be removed from rate base. As shown on Attachment RCS-6, Schedule B-5, these  
19 adjustments reduce utility plant in service by \$149,497 and accumulated depreciation by  
20 \$22,008 for a net reduction to rate base in the amount of \$127,489 in the Sun City water  
21 district.

22  
23 Q. Has AAWC accepted Mr. Becker's adjustments to utility plant in service and  
24 accumulated depreciation as it relates to the Youngtown Plant?

1 A. Yes. As stated on page 2 of her Rebuttal Testimony, Company witness Sandra L. Murrey  
2 stated that this plant item had been included in the Company's workpapers in this  
3 proceeding as a Staff reconciling item from AAWC's last rate case. The Company agreed  
4 with Mr. Becker's adjustments on the basis that AAWC may further research and support  
5 this item in a future rate case.

6  
7 **B-6 Verrado Wastewater Plant – Anthem/Agua Fria Wastewater**

8 **Q. Please explain your adjustment shown on Schedule B-6.**

9 A. This adjustment reflects the recommendation made by Staff witness Gary McMurry as it  
10 relates to the Company's Verrado Wastewater Plant ("Verrado"). Mr. McMurry stated  
11 that the Company's proposal to include the actual recorded cost of Verrado in rate base  
12 does not take into account that Verrado is overbuilt and under-utilized. Therefore, Staff  
13 concluded that the excess capacity associated with Verrado should be excluded from rate  
14 base and thus, removed \$1,838,637 from utility plant in service. As shown on Attachment  
15 RCS-7, Schedule B-6, I have reduced rate base by \$1,838,637 for Anthem/Agua Fria  
16 Wastewater.

17  
18 **Q. Has AAWC accepted Staff's recommended adjustment to reduce utility plant in**  
19 **service as it relates to Verrado?**

20 A. Yes. As stated on page 2 of her Rebuttal Testimony, Company witness Murrey stated that  
21 although AAWC has accepted Staff's recommendation to remove the excess capacity  
22 associated with Verrado from rate base, the Company requested that the Commission

1 determine that removing this excess capacity is temporary until a future rate case and that  
2 it is appropriate to include the \$1,838,637 in Plant Held For Future Use.

3  
4 **Q. Is Plant Held for Future Use included in rate base?**

5 A. No. It is not used and useful during the test year, and therefore Plant Held for Future Use  
6 is not included in rate base.

7  
8 **B-7 Comprehensive Planning Study – Sun City and Sun City West Wastewater**

9 **Q. Please explain your adjustment shown on Schedule B-7.**

10 A. This adjustment reflects the recommendation made by Staff to transfer costs totaling  
11 \$12,242 associated with a comprehensive planning study that was recorded in the Sun  
12 City Wastewater district to the Sun City West Wastewater district because this planning  
13 study was in fact conducted for Sun City West Wastewater. Therefore, as shown on  
14 Attachment RCS-7, Schedule B-7, I have reduced Sun City Wastewater's utility plant in  
15 service by \$12,242 and have increased Sun City West Wastewater's utility plant in service  
16 by the same amount. This resulted in changes to the rate base of these two districts. For  
17 the combined wastewater districts, this resulted in a net rate base adjustment of zero.

18  
19 **Q. Has AAWC accepted Staff's recommended adjustment to transfer the**  
20 **comprehensive planning study costs from Sun City Wastewater to Sun City West**  
21 **Wastewater?**

1 A. Yes. As stated on page 3 of her Rebuttal Testimony, Company witness Murrey concurred  
2 that the comprehensive planning study was conducted for Sun City West Wastewater and  
3 therefore, such costs should be transferred to that district.  
4

5 **B-8 North West Valley Treatment Plant – Anthem/Agua Fria and Sun City West**  
6 **Wastewater**

7 **Q. Please explain your adjustment shown on Schedule B-8.**

8 A. This adjustment reflects the recommendation made by Staff witness McMurry to update  
9 the allocation percentages associated with the North West Valley Treatment Plant  
10 (“NWVTP”) as it relates to the relative capacity demand between Anthem/Agua Fria  
11 Wastewater and Sun City West Wastewater. Staff recommended updating the NWVTP  
12 allocation to Anthem/Agua Fria Wastewater from 32 percent to 28 percent. In addition,  
13 Staff recommended updating the NWVTP allocation to Sun City West Wastewater from  
14 68 percent to 72 percent. As shown on Attachment RCS-7, Schedule B-8, updating the  
15 NWVTP allocation percentages results in a decrease to utility plant in service for  
16 Anthem/Agua Fria Wastewater in the amount of \$1,039,823 and an increase to utility  
17 plant in service for Sun City West Wastewater for the same amount. This results in  
18 changes to the rate base of these districts. For the combined wastewater districts, this  
19 results in a net adjustment to utility plant in service of zero.  
20

21 **Q. Is there a corresponding adjustment to accumulated depreciation related to the**  
22 **NWVTP allocation percentages?**

1 A. Yes. As shown on Attachment RCS-7, Schedule B-8, I have also incorporated Staff's  
2 recommendation to decrease accumulated depreciation for Anthem/Agua Fria Wastewater  
3 in the amount of \$630,244 and to increase accumulated depreciation for Sun City West  
4 Wastewater by the same amount, which results in a net adjustment to accumulated  
5 depreciation of zero.

6  
7 **Q. Has AAWC accepted Staff's recommended adjustment to update the allocation**  
8 **percentages associated with the NWVTP?**

9 A. Yes. As discussed in the Rebuttal Testimony of Company witness Linda J. Gutowski, the  
10 Company has accepted Staff's recommendation to update the allocation percentages  
11 associated with the NWVTP as it relates to the relative capacity demand between  
12 Anthem/Agua Fria Wastewater and Sun City West Wastewater.

13  
14 **Q. Do you have any other comments about this adjustment?**

15 A. Yes. Allocating the NWVTP more appropriately between these two districts, as  
16 recommended by Staff and accepted by AAWC, will also help to mitigate the rate  
17 increases for the Anthem/Agua Fria Wastewater district, which are among the highest of  
18 the districts in the current AAWC rate case.

19  
20 **B-9 Accumulated Deferred Income Taxes**

21 **Q. Please explain your adjustment shown on Schedule B-9.**

22 A. This adjustment incorporates the recommendation made by Staff witnesses Becker and  
23 McMurry to reflect in rate base the accumulated deferred income taxes ("ADIT") that

1 were recorded in the Company's audited financial statements. AAWC proposed  
2 allocating ADIT of approximately \$13.026 million to each district in this proceeding  
3 based on its four-factor allocation, but Staff was unable to reconcile the \$13.026 million  
4 figure to the Company's audited financial statements' ADIT balance of \$12.689 million.  
5 As shown on Attachment RCS-6, Schedule B-9, and summarized in the table below, the  
6 incorporation of Staff's recommended adjustments reduces ADIT (thus increasing rate  
7 base) by a total amount of \$173,965.

	Anthem	Sun City	Anthem/ Agua Fria	Sun City	Sun City West	
District	Water	Water	Wastewater	Wastewater	Wastewater	Total
Adjusted TYRate Base	\$ (18,580)	\$ (49,151)	\$ (27,084)	\$ (47,073)	\$ (32,077)	\$ (173,965)

8  
9  
10 As discussed on page 7 of the Rebuttal Testimony of Company witness Linda J.  
11 Gutowski, AAWC has agreed with Staff's recommendation to use the ADIT balance  
12 reflected in the Company's audited financial statements as the basis for allocating such  
13 ADIT to each of the districts in this proceeding.

14  
15 **Q. Does your reflection of the Staff-adjusted ADIT balance in the current AAWC rate**  
16 **case imply acceptance or endorsement of each component included in that ADIT**  
17 **balance?**

18 **A.** No. I have reflected the ADIT amounts on Schedule B-9 in part to help minimize issues;  
19 however, this should not be construed as an endorsement of each component included in  
20 the ADIT balance. AAWC's ADIT balance is a net addition to rate base and may include

1 components that would require adjustment in a future case if a detailed component-by-  
2 component analysis were undertaken.  
3

4 **Other Rate Base Adjustments**

5 **Q. Are there any additional adjustments that were recommended by Staff which were**  
6 **accepted by the Company?**

7 A. Yes, there are two additional adjustments that were recommended by Staff that were  
8 accepted by the Company. The first such adjustment relates to the transfer of \$22,289,  
9 which was for chemical feed and water quality monitoring equipment, that Staff  
10 recommended be reclassified from Account 304300 to Account 320100, for Anthem  
11 Water. The second such adjustment relates to the transfer of \$487,000, which was for a  
12 power generator, that Staff recommended be reclassified from Account 354400 to  
13 Account 355500, for Anthem/Agua Fria Wastewater.  
14

15 **Q. Are you presenting rate base adjustment schedules for these two adjustments?**

16 A. No. I have no reason to disagree with the appropriateness of these Staff-recommended  
17 adjustments which AAWC has accepted. Since both of these adjustments merely  
18 reclassify amounts from one plant account to another, there is no net impact on RUCO's  
19 proposed rate base. Therefore, it was not necessary to present rate base adjustment  
20 schedules for either of these adjustments.  
21

22 **Q. Did these adjustments affect Depreciation Expense?**

1 A. Yes. The adjustment between plant accounts affected Depreciation Expense. I show the  
2 impact on Schedules C-18 and C-19.

3  
4  
5 **IV. ADJUSTMENTS TO OPERATING INCOME**

6 **Q. Please describe how you have summarized RUCO's proposed adjustments to**  
7 **operating income.**

8 A. Attachments RCS-6 and RCS-7 includes for each water and wastewater district,  
9 respectively and in summary for the water systems and, separately, for the wastewater  
10 districts included in AAWC's filing, a Schedule C that shows AAWC's requested net  
11 operating income, RUCO adjustments, and RUCO's adjusted net operating income.  
12 AAWC's proposed adjusted test year net operating income from its direct filing and  
13 RUCO's recommended adjusted net operating income for each district is summarized in  
14 the following table:

**Net Operating Income Summary - Water and Wastewater Districts**

District	Per Company		
	As-Filed	Per RUCO	Difference
Anthem Water	\$ 514,448	\$ 683,807	\$ 169,359
Sun City Water	\$ 861,085	\$ 1,359,588	\$ 498,503
Subtotal - Water	\$ 1,375,533	\$ 2,043,394	\$ 667,861
Anthem/Agua Fria Wastewater	\$ (191,785)	\$ (4,298)	\$ 187,487
Sun City Wastewater	\$ (51,593)	\$ 68,704	\$ 120,297
Sun City West Wastewater	\$ 618,443	\$ 748,629	\$ 130,186
Subtotal - Wastewater	\$ 375,065	\$ 813,034	\$ 437,969
Total	\$ 1,750,598	\$ 2,856,428	\$ 1,105,830

1 Attachments RCS-6 and RCS-7 also contain a Schedule C.1 for water, for wastewater, and  
2 for each district that presents RUCO's recommended adjustments to Arizona test year  
3 revenues and expenses. The impact on state and federal income taxes associated with  
4 each of the recommended adjustments to operating income is also reflected on Schedule  
5 C.1. The recommended adjustments to operating income are discussed below in the same  
6 order as they appear on Schedule C.1 of Attachments RCS-6 and RCS-7 for water and  
7 wastewater district, respectively.  
8

9 **C-1 Customer Annualization Correction (Anthem Water District)**

10 **Q. Please explain RUCO Adjustment C-1.**

11 A. AAWC's response to RUCO 2-48 says that RUCO witness Rodney Moore<sup>21</sup> found errors  
12 in the Company pro forma annualization for Anthem Water, which the Company is  
13 accepting and would reflect in their rebuttal. RUCO Adjustment C-1 in Attachment RCS-  
14 6 reflects the correction of such errors in computing the revenue requirement for Anthem  
15 Water. In my direct testimony, I had mistakenly decreased the amount of annualized  
16 revenue at current rates for Anthem Water by \$9,456. AAWC witness Gutowski has  
17 accepted this adjustment and pointed out that it should increase revenue, not decrease it,  
18 by \$9,458. I have revised Schedule C-1 in Attachment RCS-6 to reflect this correction.  
19

20 **C-2 Rate Case Expense (All Districts)**

21 **Q. What has AAWC requested for rate case expense?**

---

<sup>21</sup> Mr. Moore is presenting the rate design testimony for RUCO.

1 A. AAWC had requested \$678,425 for the current case, amortized over three years, plus  
2 amortization of the remaining unamortized balance from prior rate cases. The \$678,425  
3 proposed by AAWC for the current rate case is shown on AAWC witness Broderick's  
4 Exhibit TMB-2. The amounts requested for the prior rate cases of \$149,119 is from  
5 AAWC witness Kiger's direct testimony at page 10 and was requested over three years as  
6 an amortization in AAWC adjustment MHK-8. AAWC witness Kiger has agreed on page  
7 17 of his rebuttal testimony to remove the expense related to the prior rate case. AAWC  
8 witness Broderick's rebuttal at pages 5-6, however, continues to request an amount of  
9 \$678,425 for the current rate case. As noted in my direct testimony, this request is higher  
10 than the amount from the prior AAWC rate case.

11  
12 **Q. Why does the Company state it is asking for more rate case expense than in Docket**  
13 **No. 08-0227?**

14 A. Page 11 of AAWC witness Broderick's direct testimony stated that:

15 The primary reason this [\$678,425] estimate is higher than the most recent (seven  
16 district) rate case is primarily due to the anticipated additional requirement to  
17 provide a required public notice to all 154,000 Arizona-American customers of the  
18 proposed consolidated rates – at a cost of roughly \$95,957. There is additional  
19 cost to have our rate design expert, Mr. Paul Herbert, design, support and explain  
20 consolidated rates. We also anticipate mailing a postcard to all customers  
21 concerning public meetings about rate consolidation at a cost of approximately  
22 \$40,000.

23  
24 AAWC Exhibit TMB-2 presents an itemization of the Company's estimated rate case  
25 expense, by component, which sums to the \$678,425.

26 In addition to the components mentioned above, this includes \$230,000 for legal  
27 representation, \$65,000 for a cost of equity witness, \$65,000 for a rate design witness,  
28 \$15,000 for compliance for an Anthem rate tiers study, \$75,000 for "Shared Services"

1 which appears to be for affiliate labor-related charges, \$20,000 for newspaper publishing  
2 of initial public notice and ACC public comment meetings, \$47,500 related to Company-  
3 sponsored community meetings, and \$50,329 for an initial public notice letter to 81,176  
4 customers.

5 Mr. Broderick's rebuttal testimony at page 6 states that, as of March 11, 2010, the  
6 Company had incurred \$226,339 in rate case expense for the current case. Additionally,  
7 he states that in a procedural order dated March 18, 2010, the ALJ required a Company-  
8 wide all customer notice regarding rate consolidation, which AAWC anticipates will be  
9 sent as a first class letter at a total cost of approximately \$55,000. He also states that the  
10 majority of external legal costs are still ahead.

11  
12 **Q. Have some components of the Company's initial estimate of cost for the current rate**  
13 **case not materialized as expected?**

14 A. Yes. A request for the Company's supporting documentation for its rate case expense was  
15 made in RUCO 2-40(a). With regard to the initial public notice, the response to RUCO 2-  
16 40(a) stated: "Overall, to-date, expenses are running slightly under budget because the  
17 initial required public notice was sent as a bill insert and not as a separately mailed  
18 letter. However, legal expenses are expected to later be over budget." (Emphasis  
19 supplied.) Company Exhibit TMB-2 listed an estimated expense of \$50,329 for the initial  
20 public notice.  
21

1 Q. Has AAWC explained why, if the initial notice was sent as a bill insert and saved  
2 approximately \$50,000, the notice concerning rate consolidation could not also be  
3 sent as a bill insert?

4 A. No. Although he discusses the notice on page 6 of his rebuttal testimony, Mr. Broderick  
5 does not clearly indicate why the notice concerning rate consolidation could not also be  
6 sent as a bill insert, thus similarly saving on postage, similar to the initial notice.

7  
8 Q. Has the Company's identified how much of the \$226,339 in rate case expense it states  
9 it has incurred through March 18, 2010 is for Company and affiliate labor?

10 A. No.

11  
12 Q. What regulatory concerns are raised by charging for Company or affiliate labor cost  
13 in rate case expense?

14 A. Concerns of double-counting are raised by charging for Company or affiliate labor cost in  
15 rate case expense. Payroll costs and costs for affiliate labor are included elsewhere in the  
16 Company's filing, based on adjusted test year amounts. Affiliated company labor and  
17 expenses incurred subsequent to the test year as rate case cost would represent an increase  
18 to the amount recorded during the test year. Costs for Company and affiliate labor should  
19 therefore be excluded from rate case expense to preclude double counting or excessive  
20 charges to ratepayers.

21  
22 Q. How does the amount for rate case cost requested by AAWC for the current case  
23 compare with rate case expense allowed in prior AAWC rate cases?

1 A. Even though there are fewer districts in the current AAWC rate case, the rate case expense  
2 claimed by AAWC is considerably higher than the amount that was allowed in Decision  
3 No. 71410 from AAWC's last rate case. Decision No. 71410 states at page 39 that: "We  
4 find total rate case expense of \$456,275, normalized over three years and allocated across  
5 the seven districts using the Company's 4-factor allocation methodology as agreed to by  
6 Staff to be reasonable, and will allow it." (footnote omitted).

7  
8 **Q. Has the Company identified the allowed amounts of rate case expense in other recent**  
9 **AAWC rate cases?**

10 A. Yes. The Company's response to RUCO 2-78(b) states that:

11 Decision No. 71410, dated December 8, 2009, allowed \$456,275 in a seven district  
12 rate case. Decision No. 70372, dated June 13, 2008 allowed \$300,000 in a three  
13 district rate case. Decision No. 70351, dated May 16, 2008 allowed \$94,264 in a  
14 one district rate case.

15  
16 AAWC's response to RUCO 2-78(c) states "The amortization period for Decisions 71410  
17 and 70372 was three years and Decision 70351 was four years."

18  
19 **Q. Should AAWC's allowed rate case expense be based on continued updates of actual**  
20 **costs, as Mr. Broderick recommends at page 5 of his rebuttal testimony?**

21 A. No. At page 5 of his rebuttal, Mr. Broderick suggests that AAWC be allowed to use  
22 actual rate case cost, which he offers to update "at hearing, in the Company's post hearing  
23 exhibits or even later in the Company's post hearing brief." Allowing constant updates at  
24 such late stages as a basis for the allowance could remove existing incentives to control  
25 such cost, and may not provide for adequate review or questioning of such costs by other  
26 parties, if such "updates" are provided after the record is closed. The ratemaking

1 allowance for rate case expense should be based on a reasonable normalized amount, not  
2 necessarily on how much a utility actually records for such expense through the end of a  
3 rate case. Additionally, as noted above, there are concerns with AAWC and affiliated  
4 labor charges being included in rate case expense. Consequently, I do not believe there  
5 would be any benefit to allowing AAWC to update its rate case expense amount,  
6 especially for periods after the hearing, and therefore recommend that this proposal by Mr.  
7 Broderick be rejected.

8  
9 **Q. Please explain RUCO Adjustment C-2.**

10 A. This adjustment removes the cost for the prior rate case, and provides for an allowance of  
11 \$460,000 for the current case, normalized over three years, for a normalized annual  
12 allowance of \$153,333. This normalized allowance is allocated to each district in  
13 proportion to its four-factor allocator, as shown on Schedule C-2 in Attachment RCS-6 for  
14 water and Attachment RCS-7 for wastewater, respectively. The adjustment to reduce  
15 AAWC's requested rate case expense for each district is summarized below.

Summary of Adjustments to Rate Case Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (27,003)	\$ (24,304)	\$ (31,679)	\$ (20,573)	\$ (18,954)	\$ (122,513)

16  
17  
18 **Q. Has RUCO Adjustment C-2 changed as a result of AAWC's rebuttal?**

19 A. No. A total allowance of \$460,000 normalized over three years, and the removal of  
20 AAWC's prior rate case expense is consistent with the recommendations made concerning  
21 rate case expense in my direct testimony. The \$460,000 total allowance is also larger than

1 the amount allowed from Decision No. 71410, dated December 8, 2009, in a seven district  
2 rate case.

3  
4 **C-3 Incentive Compensation Expense – AAWC Employees (All Districts)**

5 **Q. Please explain RUCO Adjustment C-3.**

6 A. This adjustment removes 30 percent of the incentive compensation expense for AAWC  
7 employees that the Company had included in the test year.

8  
9 **Q. How did you determine the amount of incentive compensation for AAWC employees**  
10 **that the Company had included in the test year, inclusive of pro forma adjustments?**

11 A. The amount was determined based on the Company's responses to RUCO data requests,  
12 which had asked for such information, and from a review of underlying detail contained in  
13 the Excel files that were provided by the Company. The 30 percent disallowance has also  
14 been applied by the Commission to AAWC's incentive compensation expense in other  
15 recent AAWC rate cases including Docket Nos. W/SW-01303A-08-0227, as discussed in  
16 Decision No. 71410.

17  
18 **Q. What has AAWC stated in rebuttal concerning incentive compensation for AAWC**  
19 **employees?**

20 A. AAWC witness Townsley states at pages 6-7 of his rebuttal testimony that a 30 percent  
21 reduction for AAWC employees' incentive compensation is appropriate. He disagrees  
22 with a 50 percent disallowance, which is the disallowance percentage that the Commission  
23 has applied for other Arizona utilities' incentive compensation expense.

1           At page 7 of his rebuttal testimony Mr. Townsley claims that no justification or  
2 even explanation was provided in my direct testimony as to why the Commission should  
3 remove the Annual Incentive Plan ("AIP") incentive compensation included in the affiliate  
4 Management Fee charges from AAWC's expense.

5           At pages 7-8, he quotes from Commission Decision No. 71410 where 30 percent  
6 of AAWC's incentive compensation expense was disallowed.

7           At pages 8-9, he also quotes from a West Virginia Public Service Commission  
8 decision where that commission had rejected an adjustment to remove the cost of  
9 incentive compensation.

10           At page 7, lines 7-9, he also claims that: "This type of incentive compensation  
11 would need to be discontinued if the Commission were to deny additional amounts, which  
12 would ultimately result in a greater offsetting increase for employee base pay with no  
13 performance contingency."

14  
15 **Q. Did the Company provide a copy of its incentive compensation plan?**

16 **A.** Yes, a copy was provided in response to RUCO 2-6.  
17

18 **Q. Please briefly discuss the key provisions of the incentive compensation program.**

19 **A.** According to the 2008 Annual Incentive Plan - Rewarding Achievement, the annual  
20 incentive plan ("AIP" or "Plan") is designed to reward participants for the performance  
21 results attained by such participants and the Company during the plan year. These  
22 performance standards are comprised of the three following components: (1) Financial  
23 (Corporate, Divisional/Regional and State), Operational and Individual.

*Financial Component*

The financial component is based on operating income. The performance level is determined at the Corporate, Divisional/Regional and State levels. **In 2008, more than 85% of the operating income target for the entire Company had to be achieved before incentive compensation was awarded based on the corporate financial component of the Plan**, although such an award could be made on the Divisional/Regional and State financial components if operating income exceeded 85% of the target. In addition, **more than 75% of the Corporate operating income target had to be achieved in order for any payments to be made on any components of the Plan for the entire Company.**

*Operational Component*

The operational component is based on the following:

- **Environmental Compliance:** Environmental compliance is measured by "Notice of Violation ("NOV") count defined as the number of times an official notice is issued by a primacy agency for failure to comply with a federal, state or local government statute or regulation that is covered under the scope of the American Water Environmental Management Policy.
- **Safety Performance:** Safety performance is measured on an OSHA Total Recordable Incident Rate ("ORIR") which is defined as the rate of total injuries requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on total injury reduction which by extension improves Lost Work Day Case Rate ("LWCR") and correlates more closely to workers compensation claims and costs. LWCR will remain a personal performance goal for the Operations and Operational Risk Management functions.
- **Customer Satisfaction:** Customer satisfaction is based on the results of the annual Customer Satisfaction Survey ("CSS") conducted in the fourth quarter of each year through randomly selected customer contacts in each state.

- Service Quality: Service quality is based on the annual results of the Service Quality Surveys ("SQS") conducted throughout the year with customers having had recent contact with a customer service or field service representative.
- Service Level: Percentage of calls answered in the Customer Service Center within a certain timeframe.
- Quality Measures (Shared Services Center): (1) SSC error rate – number of financial statement errors; (2) Reconciliations – calendar year average of accounts beyond policy; and (3) Timeliness of Processes – annual percentage of processes conducted according to schedule (e.g. tax filings, consolidated financial statements, external audit information submissions, days to image & process invoices and Orcom rate changes.
- Compliance (Shared Services Center ("SSC")) – (1) External audit findings – number of unrecorded differences and topside entries; (2) internal audit findings – number of instances of deviations from policy/procedures during SOX testing; and (3) external filing requirements – annual reports and Commission reports completed by established deadlines for SSC.

Each operational component discussed above is measured as follows:

Environmental Compliance – 25%  
Safety Performance – 25%  
Customer Satisfaction – 25%  
Service Quality – 25%

#### *Individual Component*

The individual component includes Performance Targets as agreed to by participants and managers within the Companywide standard performance management process. The Company will provide an AIP letter which outlines the Company component targets. Individual performance is assessed using American Water's Performance Management and Development Review ("PDR") process whereby the PDR requires each individual to have five performance targets. Each of these five performance targets should be specific, measurable and aligned with the Company's performance targets.

1     **Q.   What criteria has the Commission found important in deciding issues concerning**  
2     **utility incentive compensation in recent cases?**

3     A.   The criteria the Commission has found important in deciding this issue in recent cases are  
4     described in various orders which have addressed the treatment of utility incentive  
5     compensation expense for ratemaking purposes. In Decision No. 68487 (February 23,  
6     2006), the Commission adopted Staff's recommendation for an equal sharing of costs  
7     associated with the Southwest Gas Corporation's ("SWG") Management Incentive Plan  
8     ("MIP") expense. For example, in reaching its conclusion regarding SWG's MIP, the  
9     Commission stated in part on page 18 of Order 68487 that:

10                 We believe that Staff's recommendation for an equal sharing of the costs  
11                 associated with MIP compensation provides an appropriate balance between  
12                 the benefits attained by both shareholders and ratepayers. Although  
13                 achievement of the performance goals in the MIP, and the benefits attendant  
14                 thereto, cannot be precisely quantified there is little doubt that both  
15                 shareholders and ratepayers derive some benefit from incentive goals.  
16                 Therefore, the costs of the program should be borne by both groups and we  
17                 find Staff's equal sharing recommendations to be a reasonable resolution.  
18

19                 AAWC has not refuted the fact that both shareholders and ratepayers derive some benefit  
20                 from incentive goals when such goals are achieved by AAWC employees.

21  
22     **Q.   Do AAWC's shareholders and customers both benefit from the achievement of**  
23     **incentive compensation program?**

24     A.   Yes. Shareholders benefit from the achievement of financial goals. Additionally,  
25     shareholders benefit from the achievement of expense reduction and expense containment  
26     goals between rate cases. Shareholders and ratepayers can both benefit from the  
27     achievement of customer service goals.

1  
2 **Q. Why have you used a 30 percent disallowance for the incentive compensation for**  
3 **AAWC employees?**

4 A. Although a higher disallowance percentage could perhaps be justified (the Commission  
5 has disallowed 50 percent of other Arizona utilities' incentive compensation expense  
6 based on an equal sharing of the cost between shareholders and ratepayers), I used a 30  
7 percent disallowance for incentive compensation of AAWC employees because this is  
8 what the Commission had determined for AAWC incentive compensation in recent prior  
9 AAWC rate cases, including Decision Nos. 71410 and 68858. Decision No. 68858 at  
10 page 20-21, for example, stated that:

11 RUCO recommends that \$12,795 of the Company's proposed \$20,037 AIP,  
12 Performance Pay and Stay Bonuses be disallowed. RUCO recommends  
13 disallowing 30 percent, or \$5,555 of the \$18,517 in Arizona Corporate allocated  
14 management fees related to the Company's Annual Incentive Plan expenses,  
15 because 30 percent of the AIP is directly related to Company financial  
16 performance measures and 70 percent to operational and individual performance  
17 measures. ... RUCO argues that the 30 percent portion of AIP expenses based on  
18 financial performance measures benefit only shareholders. ...  
19

20 We agree with RUCO that shareholders are the primary beneficiaries of additional  
21 profit the Company achieves as the result of the Company meeting its financial  
22 targets, and therefore find RUCO's proposal to disallow the 30 percent of AIP that  
23 is based on the Company's financial performance measures to be reasonable and  
24 appropriate. ... An adjustment reducing AIP expenses by \$5,555 is appropriate  
25 and should be adopted.  
26

27 In Decision No. 68858, the Commission did not adjust expense for AAWC's Performance  
28 Pay and Stay Bonuses because they were deemed closely related to salary expense. The  
29 Commission did adjust the incentive compensation portion that was related to meeting  
30 financial targets.

1           Decision No. 71410 at page 35 indicates that RUCO proposed a disallowance of  
2           30 percent, or \$5,555, of the Company's \$18,517 Arizona Corporate allocated annual  
3           incentive pay ("AIP") management fee expenses for the districts in this proceeding. Staff  
4           agreed with the adjustment and the Company indicated, while it disagrees with the  
5           premise that shareholders are the primary beneficiaries of additional profit the Company  
6           achieves as a result of Arizona-American meeting its financial targets, it did not oppose  
7           RUCO's adjustment in that proceeding.

8           Consequently, the Commission used a 30 percent disallowance of the AAWC  
9           incentive compensation that resulted from Arizona-American meeting its financial targets.

10  
11   **Q.   Did you detect anything missing in the analysis of AAWC's incentive compensation**  
12   **in those prior cases?**

13   A.   Apparently, the parties to those prior cases did not attempt to distinguish the source of the  
14   financial trigger leading to the payment of incentive compensation. Arizona-American  
15   meeting its financial targets can be a vastly different situation from the corporate parent  
16   entity, American Water Works, meeting its financial targets. American Water Works'  
17   corporate financial income is only moderately influenced by AAWC profits and is heavily  
18   influenced by non-Arizona jurisdictional operations, and is also impacted by American  
19   Water Works' non-regulated operations. AAWC ratepayers should not have to pay for  
20   incentive compensation expense that is premised on American Water Works' non-Arizona  
21   jurisdictional operations or non-regulated operations-based financial achievements.  
22

1     **Q.     Why have you used a 100 percent disallowance for the incentive compensation for**  
2     **affiliated Service Company employees who charge AAWC via the Management Fee?**

3     A.     I have recommended disallowing 100 percent of the incentive compensation for the  
4     affiliated Service Company employees who charge AAWC via the Management Fee  
5     because the award to Service Company employees is dependent upon corporate operating  
6     income and corporate financial targets. This is influenced by operating income of non-  
7     jurisdictional and non-regulated operations of American Water Works. Arizona  
8     ratepayers should not have to pay for incentive compensation that is tied to American  
9     Water Works' corporate or non-jurisdictional and non-regulated income. The AIP plan  
10    indicates that, in 2008, more than 85% of the operating income target for the entire  
11    Company had to be achieved before incentive compensation was awarded based on the  
12    corporate financial component of the Plan, although such an award could be made on the  
13    Divisional/Regional and State financial components if operating income exceeded 85% of  
14    the target. In addition, more than 75% of the Corporate operating income target had to be  
15    achieved in order for any payments to be made on any components of the Plan for the  
16    entire Company. Consequently, I believe it is reasonable and appropriate to exclude 100  
17    percent of the incentive compensation expense that is charged to AAWC for affiliated  
18    Service Company employees as part of the American Water Works Management Fee  
19    charges.

20  
21    **Q.     Have some of AAWC's affiliates in other jurisdictions removed 100 percent of**  
22    **incentive compensation expense in recent rate cases because payment is premised on**  
23    **a parent company financial trigger?**

1 A. Yes. As an example, in Docket No. 09-0319, before the Illinois Commerce Commission,  
2 Karla O. Teasley, the President of Illinois-American Water Company ("IAWC") testified  
3 concerning incentive compensation as follows:

4 VII. INCENTIVE COMPENSATION

5 Q28. Has the Company proposed recovery of expense related to payments under  
6 an incentive compensation plan?

7 A. No. In the Docket 07-0507 Order, the Commission denied recovery of  
8 incentive compensation expense due to the presence of a parent company  
9 financial trigger. In recognition of the Commission's concern as stated in Docket  
10 07-0507, IAWC will not propose recovery of this cost.  
11 (Emphasis supplied.)  
12

13 A copy of such testimony is included in Attachment RCS-8.

14 The same parent company financial trigger that caused denial of recovery of  
15 incentive compensation expense in Illinois also exists with respect to the AIP plan.  
16

17 **Q. At pages 8-9 of his rebuttal AAWC witness Townsley quotes from a West Virginia**  
18 **Public Service Commission decision where that commission had rejected an**  
19 **adjustment to remove the cost of incentive compensation. Please respond.**

20 A. Mr. Townsley is correct that the West Virginia declined to adjust West Virginia American  
21 Water Company's incentive compensation expense in that decision which was issued in  
22 March of 2009. He may not be aware, however, in view of the periods of economic  
23 hardship and high unemployment, in a subsequent order, the West Virginia commission  
24 continued to allow incentive compensation for utility employees, but rejected utility merit  
25 increases for non-officer salary positions and has found that it could not justify charging  
26 ratepayers for incentive compensation for senior management that was billed to a utility  
27 from its affiliated service company. In an Order dated November 30, 2009, the West

1 Virginia Commission stated at page 30, in a rate case decision involving Dominion Hope

2 Gas, that:

3 Hope continued to advocate for merit increases for its non-officer salary  
4 employees for 2009, characterizing the \$84,099 as a known and measurable  
5 change. ...

6  
7 The Commission continues to view merit increases for non-officer salary positions  
8 as being questionable during periods of economic hardship and high  
9 unemployment. These salary increases, although known and reasonable, do not  
10 meet a prudence test given the financial conditions we are facing. With continuing  
11 financial turmoil in the national and global economy, the Commission rejects the  
12 necessity for ratepayers to bear this expense and excludes the adjustment Hope  
13 proposed.  
14

15 At page 31 of that decision, the West Virginia Commission allowed the incentive  
16 compensation for direct Hope employees; however, at pages 35-36, the affiliated service  
17 company charges for incentive compensation (and certain other affiliate expenses) were  
18 disallowed. Page 35 of that decision states in part as follows concerning the affiliate  
19 service company charges that were challenged:

20 14. DRS Charges

21 CAD and Staff challenged a number of expenses Hope included in its going level  
22 expenses that Dominion Resources Services, Inc. ("DRS"), the Dominion service  
23 company, billed to Hope. CAD recommended disallowing eight separate  
24 categories of DRS charges totaling \$364,570 in costs including (i) 50% of  
25 incentive compensation to senior management provided through DRS, (ii)  
26 membership dues, (iii) lobbying expenses, (iv) public relations expenses, (v)  
27 charitable contributions, (vi) social club dues, (vii) corporate sponsored sporting  
28 events, and (viii) \$134,979 in corporate aviation costs. .... CAD argued that the  
29 expenses, except for incentive compensation, are not required for providing gas  
30 service and do not benefit ratepayers. ... CAD split the incentive compensation  
31 charge as a reflection of the shared benefit of incentive compensation to both  
32 shareholders and ratepayers. Staff also recommended that the Commission  
33 eliminate a similar list of expenses (except for aviation charges) for a total of  
34 \$378,831. .... Staff asserted that Dominion stockholders benefit from these  
35 expenses and therefore should bear them. ...  
36

37 Hope objected to the CAD and Staff recommendations regarding the protested  
38 DRS charges. Hope argued that the incentive compensation charges from DRS are

1 a necessary part of the package Dominion uses to attract and retain talented  
2 executives. ...  
3

4 Page 36 of that decision presents the West Virginia Commission's conclusion on these  
5 issues as follows:

6 The Commission accepts the Staff recommendation regarding incentive  
7 compensation expenses for senior management charged by DRS to Hope. ... Hope  
8 has no senior management of its own and relies on DRS to provide those functions.  
9 While the Commission is sympathetic to the desires of Hope to attract and retain  
10 talented employees, **Hope executives should consider the current economic**  
11 **climate in their bonus requests.** As discussed above regarding merit increases  
12 for other salary employees, **the Commission cannot justify bonus costs for Hope**  
13 **executives in the midst of protracted economic turmoil.** The Commission  
14 disallows the DRS charges listed above removing \$378,831 Staff recommended  
15 plus \$134,979 in aviation costs for a total of \$513,810 from the cost of service  
16 calculations.  
17 (Emphasis supplied.)  
18

19 A copy of the pertinent excerpts from this decision is presented in Attachment RCS-8.  
20

21 **Q. Please summarize your recommendation concerning AAWC's incentive**  
22 **compensation expense.**

23 A. I recommend continuing the 30 percent allocation to shareholders ordered by the  
24 Commission in Decision No. 71410 for the incentive compensation expense for AAWC's  
25 own employees. This results in a reduction to test year expense of \$75,959, as  
26 summarized in the table below.

Summary of Adjustments to Achievement Incentive Pay

27

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (14,417)	\$ (18,690)	\$ (17,639)	\$ (10,772)	\$ (14,441)	\$ (75,959)

1           Additionally, I recommend a 100 percent disallowance for the incentive compensation  
2           charged to AAWC from affiliates as part of the affiliate Management Fee as shown in  
3           Schedule C-11 which is discussed in a subsequent section of my testimony relating to that  
4           adjustment.

5  
6   **C-4   Stock-Based Compensation Expense (All Districts)**

7   **Q.   Has AAWC agreed that stock-based compensation expense should be removed?**

8   A.   Yes. AAWC witnesses Broderick and Kiger's rebuttal testimony indicates that AAWC  
9       agrees that stock-based compensation expense should be removed.

10  
11   **Q.   Has stock-based compensation expense been disallowed by the Commission in rate**  
12       **cases for other utilities?**

13   A.   Yes. In Decision No. 69663, the Commission adopted Staff's recommendation that stock-  
14       based compensation be disallowed for Arizona Public Service Company ("APS").

15  
16   **Q.   Was stock-based compensation expense also disallowed in the Commission's decision**  
17       **in a rate case involving UNS Electric, Inc.?**

18   A.   Yes, it was. In Decision No. 70360 at page 22, the Commission, in referencing a similar  
19       decision regarding Southwest Gas Corporation as well as APS' last rate case stated:

20  
21                   For these same reasons, we agree with Staff that test year expenses should  
22                   be reduced to remove stock-based compensation to officers and  
23                   employees...The disallowance of stock-based compensation is consistent  
24                   with the most recent rate case for Arizona Public Service Company  
25                   (Decision No. 69663).  
26  
27

1 **Q. Was stock-based compensation expense removed by Staff in other recent utility rate**  
2 **cases?**

3 A. Yes. Staff also removed the utility's stock-based compensation expense in the recent rate  
4 cases of Tucson Electric Power Company, Docket No. E-01933A-07-0402 and Southwest  
5 Gas Corporation, Docket No. G-01551A-07-0504.<sup>22</sup>

6  
7 **Q. Please discuss the reasons for removing stock-based compensation.**

8 A. Ratepayers should not be required to pay executive compensation that is based on the  
9 performance of the Company's (or its parent company's) stock price. Additionally, prior  
10 to being required to expense stock options for financial reporting purposes under  
11 Statement of Financial Accounting Standards No. 123 Revised (SFAS 123R), the cost of  
12 stock options was typically treated as a dilution of shareholders' investments, i.e., it was a  
13 cost borne by shareholders. While SFAS 123R now requires stock option cost to be  
14 expensed on a company's financial statements, this does not provide a reason for shifting  
15 the cost responsibility for stock options from shareholders to utility ratepayers.

16  
17 **Q. Have you revised your adjustment to AAWC's Stock-Based Compensation?**

18 A. Yes. As shown on Schedule C-4, using the corrected amounts identified in AAWC's  
19 rebuttal testimony, this adjustment decreases test year expense by \$83,041 to reflect the  
20 removal of AAWC's stock-based compensation for the AAWC districts in the current rate  
21 case. The expense of providing stock options and other stock-based compensation to

---

<sup>22</sup> Staff's adjustment to remove TEP's stock-based compensation was incorporated into a settlement approved by the Commission in Decision No. 70628. The ALJ's recommended opinion and order in Docket No. G-01551A-07-0504 adopted Staff's adjustment to remove stock-based compensation expense. The Commission's Decision No. 70665 in that case adopted the adjustment to remove expense for Southwest Gas's stock-based compensation expense.

officers and employees beyond their other compensation should be borne by shareholders and not by ratepayers.

**Q. What adjustment do you recommend for AAWC's stock-based compensation expense by district?**

A. As shown on Schedule C-4, expense for the AAWC districts in the current rate case is reduced by \$83,041. The adjustment by district is summarized in the table below.

Summary of Adjustments to Stock-Based Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (16,249)	\$ (21,178)	\$ (21,440)	\$ (13,094)	\$ (11,080)	\$ (83,041)

**C-5 Normalized Pension Expense (All Districts)**

**Q. What amount of pension expense has AAWC requested?**

A. In its initial filing, AAWC requested pension expense of \$2.090 million, before allocation among districts, based on funding payments into the defined benefit pension plan trust for 2009.

In its rebuttal filing, AAWC witness Kiger at pages 14-15 of his rebuttal is recommending an alternative that uses an average of 2009 and 2010 funding payments, which he identifies as \$2,090,643 and \$2,062,641, respectively.

**Q. Should these requests by AAWC for pension expense, based on amounts beyond the test year, be adopted?**

1 A. No. The pension expense requested by AAWC, which is based entirely on amounts  
2 beyond the test year, is abnormally high and should be rejected. In place of the  
3 substantially increased pension expense requested by AAWC, a normalized amount based  
4 on recent actual experience through the test year, should be used for ratemaking purposes.

5  
6 Q. How does the \$2.090 million pro forma amount used by AAWC for Pensions  
7 compare with the actual recorded expense in recent years?

8 A. It is significantly higher than any amount for the last five years, 2004-2008, as shown in  
9 the following table:

Comparison of Annual Pension Amounts

		AAWC Request Exceeds	
Year	Amount	By Amount	Percent
Actual Recorded:			
2004	\$ 146,893 [a]	\$ 1,943,107	1322.8%
2005	\$ 317,798 [a]	\$ 1,772,202	557.7%
2006	\$ 1,013,141 [a]	\$ 1,076,859	106.3%
2007	\$ 903,222 [a]	\$ 1,186,778	131.4%
2008	\$ 1,734,561 [a]	\$ 355,439	20.5%
Averages:			
2004-2008	\$ 823,123	\$ 1,266,877	153.9%
2006-2008	\$ 1,216,975	\$ 873,025	71.7%
2007-2008	\$ 1,318,892	\$ 771,109	58.5%
AAWC Requested	\$ 2,090,000 [b]		
RUCO Normalized	\$ 1,318,892 [c]		

Notes and Source

[a] Annual recorded amounts from response to RUCO 2-60

[b] Company's requested amount is from AAWC Exhibit SLH-2  
and is based upon 2009 funding contributions

[c] Based on two-year average, 2007-2008

10  
11 The 2009 amount used by AAWC is abnormally high, and the unusually high amount  
12 appears to be driven by the poor stock market performance that occurred with the  
13 worldwide financial crises that began unfolding in the second half of 2008.

1     **Q.     Do you have other concerns about AAWC's request for pension expense in this case?**

2     A.     Yes, the amount requested by AAWC does not appear to have been based on its net  
3           periodic pension cost that is accrued pursuant to Statement of Financial Accounting  
4           Standards No. 87 ("FAS 87") but rather on a funding amount, which is subject to  
5           management discretion. As explained in response to RUCO 2-52, AAWC's requested  
6           pension expense "is based upon the funding requirement for the upcoming year based  
7           upon the actuarial report of Towers Perrin." A copy of that actuarial report was provided  
8           in response to RUCO 2-52.

9  
10    **Q.     You mentioned FAS 87 as a measurement of pension expense. When was FAS 87**  
11       **promulgated and adopted for accounting purposes?**

12    A.     FAS 87, Employer's Accounting for Pensions, was published in December 1985. For  
13           public companies, it was effective as required financial accounting for fiscal years  
14           beginning after December 15, 1986, and earlier application was encouraged. This is not a  
15           new accounting requirement. It has been applicable for financial accounting and reporting  
16           purposes now for 23 years.

17  
18    **Q.     Do AAWC and its parent company American Water Works apply FAS 87?**

19    A.     Yes. The American Water Works Company, Inc. ("AWWC") Securities and Exchange  
20           Commission ("SEC") Form 10-K for the period ending 12/31/2008 at page 127 shows Net  
21           periodic pension benefit cost for 2006, 2007 and 2008 of \$35.011 million, \$32.329 million  
22           and \$32.886 million, respectively.

23

1 Q. AAWC witness Broderick claims that AAWC uses an ERISA basis for pensions for  
2 ratemaking purposes. AAWC has also indicted in response to discovery that it has  
3 established a "regulatory asset" for differences between funding and FAS 87. What  
4 has AAWC provided to support its claim that Arizona is an "ERISA state" for  
5 pension and that AAWC has authorization to establish such a regulatory asset for  
6 the districts at issue in the current rate case?

7 A. Not much. AAWC's responses to discovery in the current rate case indicate that the  
8 Company is relying upon Decision No. 58419 for its justification for establishing a  
9 pension "regulatory asset"; however, Decision No. 58419 was issued in September 1993  
10 for Paradise Valley Water and thus applied to Paradise Valley and not to other utilities  
11 operating in Arizona that AAWC did not even own at that time. Moreover, Decision No.  
12 58419 reflected a Staff adjustment in that case to reduce Paradise Valley's requested  
13 pension expense by \$17,320 for the differences between FAS 87 and funded pension  
14 expense. At page 8, lines 9-16, that Decision stated that:

15  
16 In its rebuttal testimony, the Company agreed to Staff's pro forma  
17 adjustment on the condition that the Commission allow the Company to  
18 establish and maintain a regulatory asset for SFAS 87 costs.

19 We agree that it is appropriate to exclude the \$17,320 and that the  
20 Company should establish a deferral account as a result of its  
21 implementation of SFAS 87, for possible recovery in a future rate  
22 application.

23  
24 In summary, \$17,230 was excluded and Decision No. 58419 states that "the Company  
25 should establish a deferral account as a result of its implementation of SFAS 87, for  
26 possible recovery in a future rate application." This says "possible" recovery, not  
27 "probable" recovery, which is often cited as one of the criteria for establishing a  
28 regulatory asset under FAS 71. At page 8, Decision No. 58419 says that Paradise Valley

1       should establish a "deferral account" not a "regulatory asset" account. To accountants,  
2       there is a difference between a mere "deferral account" and a regulatory asset. Also, there  
3       is nothing in the "Findings of Fact" on pages 19-21, or the "Order" provisions at pages 21-  
4       23 of Decision No. 58419 that instruct Paradise Valley to establish a regulatory asset for  
5       pension-based differences. In sum, AAWC's apparent heavy reliance upon Decision No.  
6       58419 as authorizing a "regulatory asset" for pensions, even for Paradise Valley Water  
7       Company, may have been misplaced.

8               Moreover, Decision No. 58419 applied only to Paradise Valley Water, not to other  
9       water utility operations acquired by American Water after 1993.

10              The Company's response to RUCO 7-1(c) also states that "AAWC continues to  
11       debit a regulatory asset for the on-going difference between pension accruals and  
12       contributions." Yet, also according to the Company's response to RUCO 7-1(c), AAWC  
13       has stated that the issue has not been revisited since the ACC's 1993 Decision No. 58419.  
14       It could be irresponsible on the part of a utility to not raise the issue of recovery of a  
15       substantially growing deferral amount in each subsequent rate case, especially when the  
16       amount of cost deferral being recorded (perhaps without adequate authorization) as a  
17       "regulatory asset" was growing over a hundred fold.

18              The Company's apparent failure to notify the Commission of a growing and now  
19       apparently multi-million dollar sized pension "regulatory asset" that is now orders of  
20       magnitude higher than the \$17,230 amount that was specifically mentioned in Decision  
21       No. 58419 and the Company's apparent failure to bring the pension "regulatory asset"  
22       issue to the Commission's attention for deferral authorization subsequently to that 1993

1 case may thus have created or contributed to accounting and regulatory problems for  
2 AAWC.

3  
4 **Q. At pages 13-14 of his rebuttal testimony, AAWC witness Broderick requests that, if**  
5 **the Commission decides to approve FAS 87 based pension expense in this case,**  
6 **AAWC wants to charge ratepayers for prior differences between FAS 87 and**  
7 **ERISA, based on amounts that AAWC has deferred in accounts 186408 and 186422**  
8 **over a five-year period. Should that AAWC request be adopted?**

9 **A.** No. To date, other than citing Decision No. 58419, which did not authorize a regulatory  
10 asset, and which applied to Paradise Valley, not to any of the districts at issue in the  
11 current AAWC rate case, AAWC has provided nothing of reliable substance that would  
12 justify charging ratepayers of any of the AAWC utilities in the current rate case for a  
13 multi-million dollar pension "regulatory asset" that was apparently never clearly presented  
14 by AAWC to the Commission or authorized by the Commission for the specific water and  
15 wastewater utilities whose revenue requirements are at issue in the current AAWC rate  
16 case. This request by AAWC for amortization of a pension "regulatory asset" should be  
17 rejected. In addition to being inappropriate and apparently without proper Commission  
18 authorization with respect to the deferral, such an amortization in the current case would  
19 exacerbate even further the shockingly high pension expense increases that the Company  
20 is requesting.

21

1 Q. At page 10 of his rebuttal, Mr. Broderick states that: "The Company believes that  
2 Mr. Smith has greatly exaggerated the 'management discretion' associated with  
3 ERISA expense." Please respond.

4 A. Management has wide discretion when it comes to plan funding and plan design. As an  
5 example, AWWC closed its pension plan for any employees hired on or after January 1,  
6 2006. Union employees hired on or after January 1, 2001 had their accrued benefits frozen  
7 and will be able to receive this benefit as a lump sum upon termination or retirement.  
8 Union employees hired on or after January 1, 2001 and non-union employees hired after  
9 January 1, 2006 are provide with a 5.25 percent of base pay defined contribution plan.  
10 Additionally, as part of the RWE divestiture the management and shareholders could have  
11 determined to leave the AWWC defined benefit pension plan in a fully funded status,  
12 making it less vulnerable prospectively to investment declines.

13  
14 Q. Has the parent company, AWWC, already put its shareholders on notice that the  
15 disruption in the capital markets adversely affects the value of the investments held  
16 within AWWC's employee benefit plans, and this can adversely affect AWWC's  
17 results of operations, including shareholders' equity?

18 A. Yes. In AWWC's 2008 SEC Form 10-K (filed 2/27/09) at page 28, investors have been  
19 put on notice by AWWC that the:

20 **The disruption in the capital markets and its actual or perceived effects on**  
21 **particular businesses and the greater economy also adversely affects the value of**  
22 **the investments held within the Company's employee benefit plan trusts.**  
23 **Significant declines in the value of the investments held within the Company's**  
24 **employee benefit plant trusts may require the Company to increase**  
25 **contributions to those trusts in order to meet future funding requirements if**  
26 **the actual asset returns do not recover these declines in value in the**  
27 **foreseeable future. These trends may also adversely impact the Company's**

1 results of operations, net cash flows and financial positions, including our  
2 **shareholder's equity.**  
3 (Emphasis supplied.)  
4

5 **Q. What else does the AWWC 2008 SEC Form 10-K state on page 28 with respect to the**  
6 **impact the disruption of capital markets had on the value of its benefit plan assets?**

7 **A.** It describes how the poor investment market conditions can unfavorably impact the value  
8 of AWWC's benefit plan assets, which could then require significant additional funding:

9 **Market conditions may unfavorably impact the value of benefit plan assets**  
10 **and liabilities which then could require significant additional funding.**  
11 The performance of the capital markets affects the values of the assets that are held  
12 in trust to satisfy future obligations under the Company's pension and  
13 postretirement benefit plans and could significantly impact our results of  
14 operations and financial position. The Company has significant obligations in these  
15 areas and the Company holds significant assets in these trusts. These assets are  
16 subject to market fluctuations, which may affect investment returns, which may  
17 fall below the Company's projected return rates. **A decline in the market value of**  
18 **the pension and postretirement benefit plan assets, as was experienced in**  
19 **2008, will increase the funding requirements under the Company's pension**  
20 **and postretirement benefit plans if the actual asset returns do not recover**  
21 **these declines in value.** Additionally, the Company's pension and postretirement  
22 benefit plan liabilities are sensitive to changes in interest rates. As interest rates  
23 decrease, the liabilities increase, potentially increasing benefit expense and funding  
24 requirements. Further, changes in demographics, including increased numbers of  
25 retirements or changes in life expectancy assumptions may also increase the  
26 funding requirements of the obligations related to the pension and other  
27 postretirement benefit plans. Also, **future increases in pension and other**  
28 **postretirement costs as a result of reduced plan assets may not be fully**  
29 **recoverable from our customers,** and our the results of operations and financial  
30 position of the Company could be negatively affected.  
31

32 **During 2008, the Company's unfunded status of its pension plan increased**  
33 **significantly primarily due to lower than expected 2008 asset returns, which**  
34 **are expected to result in increased benefit costs and required funding**  
35 **contributions in future years.** Based on current plan assets and expected future  
36 asset returns, the Company currently estimates the increase to pension and  
37 postretirement expense (net of capitalized amounts) in 2009 to be approximately  
38 \$32 million, pre-tax. It is the Company's intent to work with PUCs in the states in  
39 which it operates to minimize the impact of such increases on its results of  
40 operations. The Company currently expects to make pension and postretirement

1 benefit contributions to the plan trusts of \$125.9 million, \$132.5 million, \$124.7  
2 million, \$161.9 million and \$123.2 million in 2009, 2010, 2011, 2012 and 2013  
3 respectively. Actual amounts contributed could change significantly from these  
4 estimates  
5 (Emphasis supplied.)

6  
7 As indicated above, AWWC has already put its shareholders on notice that **"increases in**  
8 **pension and other postretirement costs as a result of reduced plan assets may not be**  
9 **fully recoverable from our customers."** This notice by the parent company, AWWC, to  
10 its shareholders, is consistent with a ratemaking treatment that holds shareholders  
11 responsible for extraordinarily high pension costs that have been caused by the capital  
12 market disruptions and worldwide financial crisis.

13  
14 **Q. Do you agree with AAWC witness Kiger's claim at page 14, lines 10-11, that "it is**  
15 **essential that the Company recover its actual pension and OPEB expense"?**

16 **A.** No. It is not essential that AAWC recover or that its ratepayers (many of whom are also  
17 suffering from the economic disruptions) bear, an abnormal level of pension (or OPEB)  
18 expense, especially when the level of pension expense being requested by the Company  
19 has increased so significantly because of capital market disruptions and abnormally poor  
20 investment market performance. What is essential is that the Commission balance the  
21 interests of ratepayers and shareholders, and, where necessary, hold shareholders  
22 responsible for unusual and abnormal cost increases. AAWC's request for 2009 or even  
23 an average of 2009 or 2010 pension expense should be rejected. There is no requirement  
24 that a utility like AAWC be allowed to recover "actual" expenses for pensions or other

1 items when those expenses are at abnormal levels due to unprecedented capital market  
2 disruptions and where the utility's requested amounts are for periods beyond the test year.

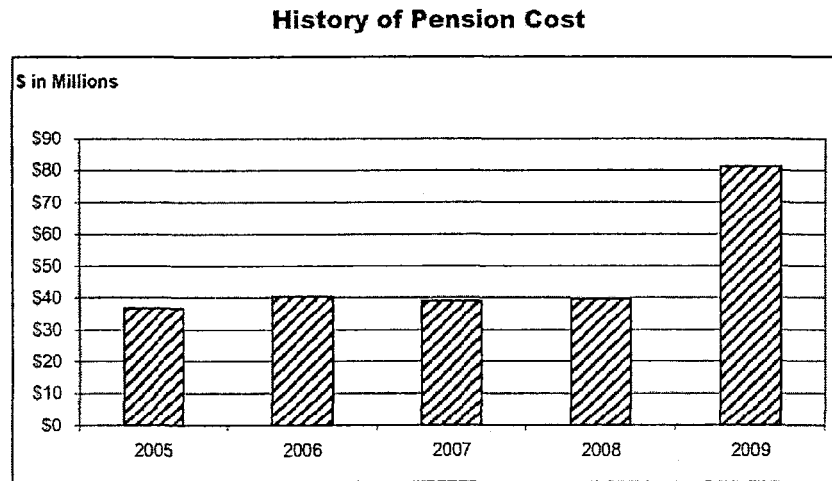
3  
4 **Q. Should AAWC's ratepayers be held responsible for the impact of the temporary**  
5 **poor market conditions that caused a significant decline in the AWWC benefit plan**  
6 **assets by having to pay pension expense that is abnormally high as a result of the**  
7 **disruption of capital markets and its impact on the value of its benefit plan assets?**

8 A. No. Ratepayers should be responsible only for paying for a reasonable and normal  
9 amount of pension expense. The large increases in AAWC's pension expense reflected in  
10 AAWC's proposal to use post-test year amounts should be rejected. Ratepayers, who are  
11 also suffering from the challenging economic conditions, should not be held responsible  
12 for substantially increased pension expense that resulted from the disruption of capital  
13 markets and its impact on the value of the AWWC benefit plan assets. It was the  
14 Company's (and the parent company, AWWC,) management that designed the benefit  
15 plan and utilizes discretion concerning the funding amount (AWWC has apparently  
16 decided to fund only the minimum required amount), and thus which has exposed the  
17 Company to the volatility in this expense that has been impacted by the disruption of  
18 capital markets.

19  
20 **Q. What does the Company's actuarial report show for the FAS 87 Pension Cost**  
21 **amount and how does it compare with prior years?**

22 A. The FAS 87 pension cost for January 1, 2009 for AWWC is listed on page MS-2 of the  
23 report and is \$81,116,478. The 2009 expense is much higher than in previous years as

1 shown in the "History of Pension Cost" tables from page MS-4 of the report, which are  
2 reproduced for ease of reference below:



3  
4 The following table shows the relative dollar amounts in total and the percent of covered  
5 pay:

**History of Pension Cost**  
-----Pension cost-----

<i>Fiscal year</i>	<i>Amount</i>	<i>Percent of covered pay</i>	<i>Discount rate</i>
2009*	\$ 81,116,478	26.1%	6.12%
2008*	39,625,996	13.4	6.27
2007*	38,968,697	13.5	5.90
2006	40,327,960	16.7	5.65
2005	36,845,672	15.5	6.00

6 \* All values on or after 2007 reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

7 As can be seen, the total cost for 2009 has more than doubled the cost of any of the prior  
8 years, 2005 through 2008. Additionally, the cost as a "percent of covered pay" at 26.1  
9 percent for 2009 is also almost double the 13.4 percent and 13.5 percent for the prior years

2008 and 2007, respectively. As shown on page SI-3 of the actual report, the dollar cost per active participant is \$16,626 for fiscal 2009, which is more than double the comparable amount of \$7,842 for fiscal 2008.

**Q. Does the actuarial report show how the pension cost under FAS 87 changed from 2008 to 2009?**

**A.** Yes. This is shown at page MS-2, and summarized in the following table:

**Change in Pension Cost and Overfunded (Underfunded) PBO**

The pension cost increased from \$39,625,996 in fiscal 2008 to \$81,116,478 in fiscal 2009 and the underfunded PBO increased from \$(265,135,065) on January 1, 2008 to \$(479,814,107), as set forth below:

	<b>Pension Cost</b>	<b>Funded Position</b>
Prior year	\$ 39,625,996	\$ (265,135,065)
Change due to:		
▶ Expected based on prior valuation	(2,982,015)	42,493,168
▶ Loss (gain) from noninvestment experience	1,762,793	(16,002,728)
▶ Loss (gain) from asset experience	37,809,962	(209,099,734)
▶ Assumption changes	4,899,742	(32,069,748)
▶ Plan amendments	0	0
Current year	\$ 81,116,478	\$ (479,814,107)

As can be seen, there was a loss on the assets of over \$209 million which resulted in an increase to the pension cost of approximately \$37.8 million. Page MS-3 of the report lists the following as "significant reasons" for the changes:

- The return on the fair value of plan assets since the prior measurement date was less than expected, which increased the underfunded PBO and increased pension cost.
- The assumed rate of future salary increases was lowered by 25 basis points, which decreased pension cost and decreased the underfunded PBO.

- The overtime assumption for union participants and nonunion, nonexempt participants was increased, which increased the underfunded PBO and decreased pension cost.
- The discount rate for benefit obligations was changed from 6.27% to 6.12%, which increased pension cost and increased underfunded PBO.
- Minor losses from what was assumed for plan demographics occurred, which increased pension cost and increased underfunded PBO.

As described on page SI-1 of the actuarial report, the plan experienced a rate of return of negative 24.6 percent in 2008, and had an investment return of negative \$160 million. This compares with a negative investment return of \$41.9 million in 2007, which equated to a negative return of approximately 6.6 percent. A copy of that actuarial report was included with my direct testimony in Attachment RCS-4.

**Q. You mentioned that the return on the AWWC defined benefit pension plan assets was a negative 24.6 percent in 2008, which contributed to the abnormally high pension expense that AAWC is seeking. Did the Company provide the return on pension plan assets for 2009?**

**A. Yes. The Company's response to RUCO 2-95 states that, "the total return year-to-date 2009 is 20.34%."**

**Q. Does the actuarial report describe AAWC's funding policy for its defined benefit pension plan?**

**A. Yes. This is discussed at page MS-6, as follows:**

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. American Water makes plan contributions each plan year in four installments, one in August, one in

1 November, one in February, and one in May, which, in total, suffice to  
2 cover the minimum funding requirement for the plan year, and, individually,  
3 suffice to cover the quarterly requirements in October, January, April, and  
4 July respectively of each plan year.

5  
6 Plan year contributions were made in the amounts of \$15,000,000 during  
7 August of 2008, \$15,000,000 during November of 2008, and \$17,100,000  
8 during February of 2009. Additionally, \$17,100,000 is expected to be  
9 funded during May of 2009.  
10

11 **Q. Are the funding contributions discretionary with management?**

12 A. Yes. Within limits, the funding contributions for a defined benefit pension plan are  
13 discretionary with AWWC management.  
14

15 **Q. What are the limits based upon?**

16 A. The limits typically involve looking at three areas:

17 (1) the minimum required contribution under ERISA;

18 (2) the contribution needed to meet the funding target under the Pension Protection Act of  
19 2006 ("PPA"); and

20 (3) the maximum tax deductible contribution.

21 The ERISA and PPA analysis is sometimes used to establish the minimum amount of  
22 annual funding. Frequently, there can be an extremely wide range between some of these  
23 measures. For example, as described in the actuarial report on pages MS-5 and MS-6, the  
24 estimated maximum tax deductible contribution was \$737.3 million and the minimum  
25 funding requirement under the PPA was approximately \$64.2 million. These figures for  
26 the plan year beginning July 1, 2008 are also shown on pages SI-6 and SI-8, along with  
27 comparative information from the prior year. The difference between the maximum tax  
28 deductible contribution of \$737.3 million and the minimum required contribution of \$64.2

1 million is over \$673 million, and the amount to choose to contribute to the defined benefit  
2 plan trust within this range is up to management discretion.

3  
4 **Q. What do you recommend for pension expense in the current case?**

5 A. I recommend using a two-year average of the FAS 87 amounts for pension expense to  
6 establish a normalized level for AAWC in the current case. The use of an average is  
7 needed because the 2009 results are abnormally high and reflect a FAS 87 amount that  
8 almost doubled the 2007 and 2008 experience, largely due to the poor investment returns  
9 experienced by the AWWC pension trust in the latter part of 2008 and early 2009.

10  
11 **Q. Is it widely accepted to use the FAS 87 amounts for establishing pension expense in**  
12 **utility ratemaking proceedings?**

13 A. Based on my experience, yes it is. Regulatory commissions typically either base pension  
14 expense upon the FAS 87 accruals, or use the cash funding contributions. Because the  
15 range of potential cash funding contributions has become so wide in recent years, and is  
16 subject to such a degree of management discretion, I believe it is better to base the  
17 ratemaking allowance for pension expense on the FAS 87 results, normalized to remove  
18 the abnormal results that affected the AWWC defined benefit plan for 2009.

19  
20 **Q. How does your recommendation for a normalized level of pension cost compare with**  
21 **prior years, and with AAWC's request, in terms of a cost per participant and**  
22 **percent of covered pay?**

23 A. These comparisons are presented in the following tables:

Pension Cost Per Active Participant and As Percent of Covered Pay			
Period	Per Active Participant	Percent of Covered Pay	Notes/ Source
Fiscal 2006	\$ 8,836	16.70%	[a]
Fiscal 2007	\$ 7,700	13.50%	[a]
Fiscal 2008	\$ 7,842	13.40%	[a]
Fiscal 2009	\$ 16,626	26.10%	[a]
RUCO Normalized	\$ 11,374	14.50%	[b]
AAWC Requested	\$ 19,539	24.90%	[c]
Notes/Source			
[a] Per AWWC actuarial reports, May 2007 and March 2009			
[b] RUCO adjustment, percent of covered pay estimated			
[c] AAWC adjustment, percent of covered pay estimated			

1  
2  
3 **Q. Has the parent company, AWWC, closed its defined benefit plan to new employees?**

4 A. Yes. In general, employees hired or rehired after January 1, 2006 are not eligible to  
5 participate in the AWWC defined benefit pension plan.<sup>23</sup>

6  
7 **Q. Did you describe in your direct testimony how closing or limiting participation in  
8 defined benefit pension plans appears to be consistent with an overall trend?**

9 A. Yes. For example, in my direct testimony I referenced a report issued in March 2009 by  
10 the U.S. Government Accountability Office (GAO-09-291)<sup>24</sup>, which concluded, among  
11 other things, that the number of private defined benefit (DB) pension plans has declined  
12 substantially over the past two decades. For example, about 92,000 single-employer DB  
13 plans existed in 1990, compared to just under 29,000 single-employer plans today.  
14 Additionally, there is a widespread concern that large DB plans covering many  
15 participants have modified, reduced, or otherwise frozen plan benefits in recent years.

<sup>23</sup> Details of eligibility are described in the March 2009 actuarial report at page SI-23, including certain exceptions for certain union groups.

<sup>24</sup> A copy of the complete GAO study can be obtained online at: <http://www.gao.gov/new.items/d09291.pdf>

1 The GAO's survey results also suggest that the long-time stability of larger DB plans is  
2 now vulnerable to the broader trends of eroding retirement security, and noted that the  
3 market turmoil recently experienced appears likely to exacerbate this trend.

4  
5 **Q. What type of pension plan does AWWC offer to employees hired after January 1,**  
6 **2006?**

7 **A.** The Company's pension expense workpaper states: "Beginning 1/1/06, the Company no  
8 longer offers a Pension Plan to new hires. Instead, new hires get the Defined Contribution  
9 Plan as a benefit. The Company will contribute 5.25% of Base Pay into a Defined  
10 Contribution Plan."

11  
12 **Q. How does the cost of the Defined Contribution Plan compare with the cost of the**  
13 **Defined Benefit plan?**

14 **A.** The cost comparison is shown in the following table:

Average Cost Per Active Participant				
As Adjusted	AWWC Defined Benefit Plan	Defined Contribution Plan	Excess Cost for Defined Benefit	Percent Excess for DB Plan
RUCO Normalized	\$ 11,374	\$ 2,628	\$ 8,746	333%
AAWC Requested	\$ 19,539	\$ 2,628	\$ 16,911	643%

15 Source: Pension adjustment workpaper

16 As can be seen, the defined benefit plan is substantially more costly on a "per active  
17 participant" basis.

18  
19 **Q. Are you recommending any adjustment for the expense related to AAWC's Defined**  
20 **Contribution Plan?**

1 A. No.

2  
3 Q. Does RUCO Adjustment C-5 cover pension costs that are charged to AAWC from  
4 affiliated companies via the Management Fee?

5 A. No. RUCO Adjustment C-5 addresses the amount of normalized pension expense for  
6 AAWC employees. There are significant additional charges to AAWC from the affiliated  
7 Management Fee which include charges for pensions as well as numerous other expenses.  
8 The affiliated charges to AAWC from the Management Fee, including the affiliated  
9 charges for pensions, are addressed in a subsequent section of my testimony.

10  
11 Q. What specific adjustment do you recommend?

12 A. I recommend an adjustment to decrease the Company's requested amount of pension  
13 expense by \$280,339 as shown on Attachment RCS-6 and RCS-7, Schedule C-5. The  
14 amount of pension expense requested by AAWC for each district should be reduced by the  
15 amounts listed below:

Summary of Adjustments to Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (39,203)	\$ (92,636)	\$ (72,483)	\$ (25,187)	\$ (50,830)	\$ (280,339)

16  
17  
18 Q. Please explain the calculations on Schedule C-5.

19 A. The Company provided actual AAWC recorded pension expense for prior years in  
20 response to RUCO 2-60. I have used the average of 2007 through 2008 as the basis for a  
21 normalized pension expense allowance. I have replaced the \$2,090,643 abnormally high

1        2009 result that AAWC used with the \$1,318,892 normalized amount, and ran this  
2        through the Company's detailed Excel file [AZ 2008 Labor Pension Adjustment.xls] to  
3        derive an adjustment to decrease the Company's requested pension expense by \$280,339  
4        for all of the districts in the current case combined. Schedule C-5 shows the amount of  
5        adjustment for each of the five districts in this proceeding. Schedule C-5.1, which consists  
6        of two pages, reflects the results from using the recommended allowable level, based on  
7        the three-year average to determine the normalized amount.

8  
9        **Q. Have you modified this recommendation as the result of AAWC's rebuttal**  
10       **testimony?**

11       A. No. Instead of modifying its large pension increase that was reflected in its direct filing,  
12       AAWC's rebuttal testimony attempts to increase pension expense even more. At page 16  
13       of AAWC witness Kiger's rebuttal testimony AAWC attempts to increase pension  
14       expense by an additional \$72,296 for the five districts for affiliated pension expense. I  
15       comment briefly on this AAWC proposal in conjunction with Adjustment C-12, discussed  
16       below in my surrebuttal testimony.

17  
18       **Company's Request to Defer Pension Expense**

19       **Q. AAWC witness Broderick's rebuttal testimony at page 13 cites a request made by**  
20       **AAWC for approval to defer \$1.723 million in 2009 pension expense and to continue**  
21       **such deferral through December 31, 2013. Should such a deferral be permitted?**

22       A. No. This AAWC request is apparently pending in another Docket (09-0241); however,  
23       this is directly related to a major issue in the current AAWC rate case – determining a

1 reasonable and normal allowance for pension expense for ratemaking purposes. The  
2 Company's position that it should be allowed to charge ratepayers for every dollar of its  
3 "actual" or "exact"<sup>25</sup> pension expense, even when such expense is abnormally high as the  
4 result of unprecedented capital market disruptions, should be rejected. No deferrals of  
5 2009 pension expense should be permitted. The Company's requested double-digit rate  
6 increases are bad enough without placing additional burdens on ratepayers to pay  
7 additional amounts in subsequent AAWC rate cases for deferrals of abnormally high 2009  
8 pension expense. The Company's request for single issue ratemaking via "a balancing  
9 account feature" for "exact" recovery of pension expense in periods not corresponding to a  
10 rate case test year should be rejected.

11  
12 **Company's Request to Charge Ratepayers for an Amortization of a Pension "Regulatory**  
13 **Asset"**

14 **Q. Please address the requests made at pages 13-15 of AAWC witness Broderick's**  
15 **rebuttal testimony for additional charges to ratepayers for amortization and rate**  
16 **base inclusion of differences that AAWC deferred on its books for the difference**  
17 **between FAS 87 and ERISA-funded amounts for pensions.**

18 **A.** At pages 13-15 of his rebuttal testimony AAWC witness Broderick requests that AAWC  
19 be allowed to charge ratepayers for deferrals AAWC has recorded on its books in  
20 Accounts 186408 and 186422, which he states total \$746,347 and \$1,050,173 as of  
21 February 28, 2010, and for a five-year amortization of such amounts (which AAWC  
22 apparently wants to update even further beyond the 2008 test year), and for inclusion in

---

<sup>25</sup> See, e.g., Broderick rebuttal, page 13, lines 8-9 "the Company would only recover its exact pension expense" and  
11 "it is only seeking to recover its exact pension expense."

1 rate base of the unamortized balances. There are several problems and concerns with  
2 regard to this AAWC request. First, AAWC has not demonstrated that it ever requested or  
3 received Commission authorization to record such deferrals for any of the districts at issue  
4 in the current AAWC rate case. The only thing AAWC has been able to point to as  
5 potentially authorizing a deferral is Decision No. 58419, which only addressed a minimal  
6 deferral for Paradise Valley. I discussed that Decision above.

7 Additionally, there is an element of retroactive ratemaking in AAWC's proposal.  
8 For AAWC to have assumed that it could defer differences between FAS 87 and ERISA  
9 without obtaining specific Commission authorization for such deferrals is questionable at  
10 best. If the deferrals that AAWC recorded were not specifically authorized by the  
11 Commission, the amounts should be written off. From the documentation provided to date  
12 by AAWC, it appears the Company has not cited adequate authorization for such deferrals  
13 for the districts in the current AAWC rate case, and it was therefore questionable at best  
14 for such amounts to have been deferred on AAWC's books. As noted above, FAS 87 has  
15 been in existence for over 20 years.

16 Finally, the total amount of pension expense being included in rates should be  
17 reviewed for reasonableness and adjusted to a reasonable and normal level. AAWC's  
18 initially filed request, which was based on a 2009 amount that had been impacted by  
19 unprecedented disruptions in the capital markets, is too high and is based on abnormal  
20 conditions, and should therefore be adjusted downward using a historical average as I  
21 have recommended. Loading additional pension expenses into the 2008 test year based on  
22 questionable prior deferrals, and inclusion of such deferral balances in rate base as  
23 requested by AAWC is not appropriate and should be rejected.

**C-6 Normalized Other Post Employment Benefits Expense (All Districts)**

**Q. What amount of Other Post Employment Benefits ("OPEB") expense has AAWC used?**

**A.** As shown on Company Exhibit SLH-14, AAWC has used an OPEB expense of \$95,763, before allocation among AAWC districts and reduced it by a capitalization rate of 18.3 percent, to derive its proposed expense of \$78,238.

**Q. How does the \$95,763 pro forma amount used by AAWC for OPEBs compare with the actual recorded expense in recent years?**

**A.** It is significantly higher than any amount for the last five years, 2004-2008, as shown in the following table:

**Comparison of Annual OPEB Amounts**

		AAWC Request Exceeds	
Year	Amount	By Amount	Percent
Actual Recorded:			
2004	\$ 73,823 [a]	\$ 21,940	29.7%
2005	\$ 63,196 [a]	\$ 32,567	51.5%
2006	\$ 74,032 [a]	\$ 21,731	29.4%
2007	\$ 62,603 [a]	\$ 33,160	53.0%
2008	\$ 75,723 [a]	\$ 20,040	26.5%
Averages:			
2004-2008	\$ 69,875	\$ 25,888	37.0%
2006-2008	\$ 70,786	\$ 24,977	35.3%
2007-2008	\$ 69,163	\$ 26,600	38.5%
AAWC Requested	\$ 95,763 [b]		
RUCO Normalized	\$ 69,163 [c]		

**Notes and Source**

- [a] Annual recorded amounts from response to RUCO 2-60  
[b] Company's requested amount is from AAWC Exhibit SLH-14  
[c] Based on two-year average, 2007-2008

1 **Q. Please explain RUCO Adjustment C-6.**

2 A. This adjustment is shown on Schedule C-6 of Attachments RCS-6 and RCS-7 for water  
3 and wastewater districts, respectively. This adjustment normalizes the OPEB expense,  
4 using an average of 2007-2008 as the basis for deriving a normal level for ratemaking  
5 purposes. This adjustment reduces the \$95,763 amount used by AAWC to \$69,163,  
6 before capitalization, and reduces the OPEB expense from \$78,238 to \$56,529, after  
7 capitalization. The adjustment for each of the districts by the amounts is shown on  
8 Schedule C-6 of Attachments RCS-6 and RCS-7. For all of the districts included in the  
9 current rate case filing, the adjustment decreases OPEB expense by \$10,389. The  
10 reduction to each district is shown in the following table:

Summary of Adjustments to OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (2,033)	\$ (2,650)	\$ (2,682)	\$ (1,638)	\$ (1,386)	\$ (10,389)

11  
12  
13 **Q. Have you adjusted this adjustment based on AAWC's rebuttal testimony?**

14 A. No. This adjustment is appropriate to provide for a reasonable amount of OPEB expense.  
15 While not nearly as egregious as the pension expense situation discussed above, AAWC's  
16 request for OPEB expense is also based on 2009 information (i.e., is beyond the 2008 test  
17 year) and was apparently also impacted by the abnormal investment market conditions. A  
18 downward adjustment of \$10,389 to AAWC's request for OPEB expense is therefore  
19 appropriate.  
20

**C-7 Donations, Membership Dues, Advertising and Miscellaneous (All Districts)**

**Q. Please explain RUCO Adjustment C-7.**

A. This adjustment removes expenses for donations, membership dues, certain advertising expense, and miscellaneous expenses. These costs, which were identified from AWWC's response to RUCO 2-43, are discretionary and not needed for the provision of safe and reliable utility service. The adjustment to remove expenses not typically recovered from customers in the current rate case is shown on Attachment RCS-6, Schedule C-7, and summarized in the following table:

Summary of Adjustments to Dues, Donations & Misc. Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (3,250)	\$ (4,237)	\$ (4,289)	\$ (2,620)	\$ (2,216)	\$ (16,612)

**Q. Has this adjustment been revised for anything in AAWC's rebuttal testimony?**

A. No.

**Q. Has AAWC accepted this adjustment?**

A. Yes. AAWC witness Kiger's rebuttal testimony at page 11 indicated that AAWC has accepted this adjustment.

**C-8 Tank Maintenance Reserve Fund Accrual (Sun City Water and Anthem Water)**

**Q. What has AAWC requested for a Tank Maintenance Reserve Fund Accrual?**

A. AAWC is requesting an additional expense for Sun City Water of \$445,000 annually for a Tank Maintenance Reserve Fund Accrual, as shown on Company Schedule C-2, page 29.

1           In Mr. Broderick's' rebuttal testimony at page 10, AAWC is now apparently also  
2           requesting that a tank painting and inspections deferral be approved for Anthem Water  
3           District.

4  
5   **Q.   What is a Reserve Fund Accrual?**

6   A.   A Reserve Fund Accrual typically involves charging (increasing) an Expense and  
7       crediting (increasing) a Liability (or Accrued Reserve) account. It essentially charges an  
8       expense before the expense is incurred. The accumulated expense accruals are recorded in  
9       the Liability (or Reserve) account, which would thus represent an additional source of  
10      ratepayer-provided cost-free capital to the utility. When actual expenses are paid, the  
11      Liability (or Reserve) account would be reduced.

12  
13   **Q.   How is a Reserve Fund Accrual different from recording expenses as they are**  
14       **incurred?**

15   A.   Recording expenses as they are incurred typically involves crediting Cash or Accounts  
16       Payable and debiting (charging) an Expense when a cost is actually incurred. In contrast,  
17       charges to expense for a Reserve Accrual records the expense before it is incurred. The  
18       use of a Reserve Accrual essentially results in ratepayers pre-paying for the expense.  
19       Also, because of the operation of the Reserve account, this also contains undesirable  
20       elements of single-issue ratemaking, where a specific expense item, in this case Tank  
21       Painting, is singled out from all of the utility's other expenses, and essentially gets tracked  
22       (in the Accrued Reserve Account) for dollar-for-dollar recovery. As such, unless there is  
23       a very compelling reason for establishing a Reserve Fund Accrual, this single-issue

1 approach to utility regulation is undesirable, and has the impact of shifting responsibility  
2 of fluctuations in the expense between rate cases away from the utility and onto  
3 ratepayers. AAWC's Reserve Accrual embodies these undesirable features and requires  
4 ratepayers to pre-pay for expenses before they are incurred by the utility. That AAWC  
5 proposal should therefore be rejected.

6  
7 I. Sun City Water Tank Maintenance Reserve Fund Accrual

8 Q. Why should AAWC's requested Tank Maintenance Reserve Fund Accrual for Sun  
9 City Water be rejected?

10 A. AAWC's tank painting reserve for Sun City Water would have ratepayers paying for tank  
11 painting before the money is expended on tank painting. There is no need for ratepayers  
12 to pre-fund tank painting expense.

13 Additionally, with the large percentage rate increases being requested by AAWC  
14 and the poor economy, this seems like a particularly bad time to start forcing ratepayers to  
15 pre-pay for expenses that the utility has not yet incurred.

16 Establishing ratepayer pre-funding for a Reserve account also has elements of  
17 single issue ratemaking. There is no compelling need to single out tank painting expense  
18 for special ratemaking treatment. A normalized allowance for tank painting expense can  
19 be reflected in rates based on an average of recent actual experience through the test year,  
20 if the test year amount itself were to be viewed as being abnormal. Establishing a  
21 Reserve, on the other hand, would remove incentives to control the expense between rate  
22 cases, and would virtually guarantee dollar for dollar recovery by the utility of such  
23 expenditures.

Moreover, there is not much, if any, difference in the Tank Maintenance Reserve Fund Accrual that AAWC is requesting in the current rate case and the one recently proposed by AAWC in its last rate case, which was rejected by the Commission. The Commission recently rejected a similar proposal by AAWC in Docket Nos. W-01303A-08-0227 et al. which would apparently have applied for all of the water districts for which AAWC had sought rate increases in that case.

**Q. Please discuss the "Tank Maintenance Reserve" issue from Docket Nos. W-01303A-08-0227 et al.**

**A.** Decision No. 71410 discusses this issue at pages 36-37. At page 36, Decision No. 71410 describes the AAWC proposal as follows:

The Company proposed a reserve for water tank maintenance expense which would provide an annual allowance for tank maintenance costs in operating expenses. Under the Company's proposal, the funds collected through rates would be recorded in a deferred liability account labeled Reserve for Tank Maintenance, and the Reserve for Tank Maintenance account would be charged as tank maintenance expenses are incurred, reducing the balance of funds reserved.

RUCO had not opposed that AAWC adjustment in that docket, but Staff did. The

Commission concluded at page 37 of Decision No. 71410 concerning this as follows:

... we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measureable Company expenditures, we find the normalization of tank maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district, to be the more reasonable alternative. Staff's normalization adjustment will therefore be adopted for each of the six water districts.

1 In summary, AAWC's proposed Reserve accrual was rejected, and the Commission  
2 adopted a normalized amount based on a three-year average, as had been proposed by  
3 Staff.

4  
5 **Q. Is the \$445,000 annual reserve addition proposed by the Company as the amount of**  
6 **test year Tank Maintenance Reserve Accrual Expense for Sun City Water based on**  
7 **known and measurable expenses?**

8 **A.** No. It is orders of magnitude higher than Sun City's actual test year expenditures. Per  
9 AAWC's Schedule C-2, page 29, line 15, the test year Tank Maintenance Expense for Sun  
10 City Water was \$29,062.

11 Additionally, RUCO 2-91(d) (dated 12/21/2009) asked AAWC to:

12 "Provide the Company's actual tank painting expense, by district, by year,  
13 for the ten-year period through 2009. Also indicate which specific tanks  
14 were painted in each year, and the cost of painting each tank."  
15

16 AAWC's response to RUCO 2-91(d) stated in full: "Please see the attachment labeled

17 "RUCO 2-91d Tank Painting Expenditures.xls" for maintenance detail by district.

18 Invoices are also included in this file." The response only included information for the

19 2008 test year, and not for the ten-year period through 2009 as had been requested.

20 RUCO has notified the Company about its deficient response; however, as of the time of  
21 this writing, the Company has not supplemented its initial response to RUCO 2-91(d) to  
22 provide the requested information.  
23

24 **Q. Please explain RUCO adjustment C-8.**

1 A. This adjustment is shown on Attachment RCS-6, Schedule C-8 and removes the \$445,000  
2 additional pro forma accrual that AAWC seeks for Sun City Water to fund a Tank  
3 Maintenance Reserve. The Company seeks to collect from ratepayers in advance for tank  
4 maintenance. This Company request should be rejected because the tank maintenance  
5 expense reserve account balance proposed by the Company is not based on known and  
6 measureable Company expenditures and it is not necessary or reasonable to adopt the  
7 Company's proposal for advance funding of a Reserve for Tank Maintenance at this time.  
8 As noted above, a similar AAWC proposal was opposed by Staff and rejected by the  
9 Commission in Decision No. 71410.

10 **2. Anthem Water Tank Maintenance Reserve Fund Accrual**

11 **Q. Should a Reserve Fund Accrual be authorized for Anthem Water at this time?**

12 A. In Mr. Broderick's rebuttal testimony at page 10, AAWC is now apparently also  
13 requesting that a tank painting and inspections deferral be approved for Anthem Water  
14 District. As noted above, such Reserve Fund Accruals require pre-payment by ratepayers  
15 of expenses before they are incurred by the utility, and have undesirable features  
16 associated with single-issue ratemaking. Additionally, AAWC has not demonstrated that a  
17 Tank Maintenance Reserve Fund Accrual is necessary, reasonable or appropriate for  
18 Anthem Water at this time. Consequently, I recommend that AAWC's rebuttal filing  
19 request for authorization for a Reserve Fund Accrual for Anthem Water be rejected.  
20

21 ***Affiliated Management Fees (All Districts)***

22 **Q. Please briefly describe the Management Fees that AAWC incurs from affiliates.**

1 A. A considerable amount of AAWC's expenses come from affiliated company Management  
2 Fee charges. For the 2008 test year, AAWC recorded affiliated Management Fees charged  
3 to O&M expenses of approximately \$11.62 million, per the Company's response to  
4 RUCO 4-1. In addition, AAWC's original filing requested pro forma increases to this  
5 expense of approximately \$358,000.

6  
7 **Q. What pro forma adjustments did AAWC make to the affiliated Management Fees?**

8 A. AAWC made three pro forma adjustments to increase the net amount of affiliated  
9 Management Fee expense above the amount recorded in the 2008 test year for the five  
10 districts by approximately \$358,000 as summarized below:

**AAWC Affiliate Management Fee Pro Formas**

AAWC Adj.	Description	Increase (Decrease)
MHK-3	Increase labor by 4% and benefits by 22%	\$ 364,586
MHK-4	Increase "Other" by 4%	\$ 81,530
MHK-5	Remove costs for corporate divestiture and non-recurring projects	\$ (88,188)
	Net Increase to Test Year Recorded Amount of Affiliate Management Fees	\$ 357,928

11  
12  
13 **Q. How have you adjusted AAWC's request for Affiliate Management Fees?**

14 A. I have adjusted the affiliated Management Fees requested by AAWC in the following  
15 manner:

- 16 • In my direct testimony I had allowed the 4 percent affiliated Service Company pay  
17 increase that AAWC represents occurred in March 2009. Based on Commissioner  
18 interest in the recent open meeting in a UNS Gas rate case concerning utility post-  
19 test year pay increases, and RUCO's own re-evaluation of this issue in view of the

1 economic circumstances, RUCO has requested that I remove from test year  
2 operating expenses the affiliated Service Company's post test year pay increase. I  
3 have removed this affiliate post test year pay increase in Adjustment C-9A.

- 4 • I accepted AAWC's adjustment to remove one-time charges associated with  
5 corporate divestiture and non-recurring projects.
- 6 • I reversed AAWC's proposed 4 percent pro forma increase for "Other Expense"  
7 (Adjustment C-9).
- 8 • I removed AAWC's proposed 22 percent increase in employee benefits, which  
9 includes a one-year 72.92 percent increase for pensions and a 26.34 percent  
10 increase for OPEB, and assumed 4 percent increases for a number of other items,  
11 including state and federal unemployment taxes (Adjustment C-10).
- 12 • I removed all incentive compensation expense included in the Management Fees  
13 (Adjustment C-11).
- 14 • I adjusted the 2008 recorded pension amount to a normalized amount based on a  
15 two-year average of 2007-2008 (Adjustment C-12).
- 16 • I adjusted the 2008 recorded OPEB amount to a normalized amount based on a  
17 two-year average of 2007-2008 (Adjustment C-13).
- 18 • I removed the cost for the AWWSC "Business Development" function  
19 (Adjustment C-14).

20 Each of these adjustments is discussed in a subsequent section of my surrebuttal  
21 testimony.  
22

1 Q. Has AAWC agreed to some of your recommended adjustments to affiliated  
2 Management Fee expense?

3 A. AAWC witness Kiger's rebuttal testimony at page 11 indicates AAWC has accepted these  
4 adjustments to the affiliated Management Fee expenses:

- 5 ○ C-7, Dues and Donations
- 6 ○ C-9, Remove 4% Increase to "Other Expense"
- 7 ○ C-14, Remove Business Development Expense

8 AAWC is disputing these items:

- 9 ○ C-10, Remove 22.22% Post Test Year Increase for Affiliate Employee Benefits
- 10 ○ C-11, Affiliate Management Fees – Remove Affiliate Incentive Compensation  
11 Expense
- 12 ○ C-12, Affiliate Management Fees – Normalize Affiliate Pension Expense
- 13 ○ C-13, Affiliate Management Fees – Normalize Affiliate OPEB Expense

14 I will address these affiliated Management Fee expense adjustments, focusing on the items  
15 that AAWC is disputing. In doing so, please note that I have already addressed, to some  
16 extent, affiliate incentive compensation, pension and OPEB issues above, in my  
17 surrebuttal testimony when discussing these issues in the context of AAWC direct  
18 expenses. Some of the same concerns that apply to AAWC's direct expenses for these  
19 items also apply to the affiliated Management Fee charges for such items.

20  
21 C-9 Affiliate Management Fees – Remove 4% Increase to "Other Expense"

22 Q. Please summarize your recommended adjustment.

A. This adjustment removes AAWC's requested post-test year increase to Affiliate Management Fees of 4 percent for "Other Expense". Expense for the five districts is reduced by \$81,530 as shown on Schedule C-9 and summarized on the table below.

Summary of Adjustments to Management Fees - Other Expenses

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (15,954)	\$ (20,793)	\$ (21,050)	\$ (12,855)	\$ (10,878)	\$ (81,530)

AAWC's rebuttal agreed with this adjustment.

**C-9A Affiliate Management Fees – Remove 4% March 2009 Pay Increase**

**Q. Please summarize your recommended adjustment.**

A. This adjustment is shown on Attachment RCS-6 and RCS-7, Schedule C.1, as Adjustment C-9A. It reduces AAWC's requested expense to remove a 4 percent pay increase that AAWC represents occurred in March 2009 for affiliated Service Company employees. As described above, in the past RUCO has agreed to post test year wage increases that took place shortly after the end of the test year. RUCO also believes generally that the consistent application of regulation is good public policy and provides for a stable regulatory environment. However, given the economic situation, Arizona's high unemployment and foreclosure rate, the size of the increases being requested in the instant case by AAWC, and the interest shown by Commissioners in the recent open meeting concerning a rate increase by UNS Gas, (Docket No. G-04024A-08-0571) RUCO has reconsidered its position on this issue and has requested that I remove this post test year wage increase. This adjustment reduces AAWC's requested operating expenses for the six districts by \$89,678. The amounts for each district are shown below:

Summary of Adjustments to Management Fees - Remove 4% Post-Test Year Wage Increase

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (17,548)	\$ (22,871)	\$ (23,154)	\$ (14,140)	\$ (11,965)	\$ (89,678)

**C-10 Affiliate Management Fees – Remove 22.22% Post Test Year Increase for Affiliate**

**Employee Benefits**

**Q. Are you making any changes to Adjustment C-10 as a result of AAWC's rebuttal?**

**A. No.** AAWC witness Kiger's rebuttal at page 12, lines 8-10, acknowledges that a 22.2 percent increase is "larger-than-typical" but he nevertheless claims it should be borne by ratepayers because it "was driven by the increase in the known and measurable pension funding obligation under ERISA requirements for 2009." He thus attempts to impose a "larger-than-typical" increase on the test year based on 2009 ERISA funding amounts. As I have explained above, in conjunction with Adjustment C-5, 2009 was a highly abnormal year for pension expense. Moreover, the parent company, AWWC, has put shareholders on notice via statements in its SEC Form 10-K, that:

**The disruption in the capital markets and its actual or perceived effects on particular businesses and the greater economy also adversely affects the value of the investments held within the Company's employee benefit plan trusts. Significant declines in the value of the investments held within the Company's employee benefit plant trusts may require the Company to increase contributions to those trusts in order to meet future funding requirements if the actual asset returns do not recover these declines in value in the foreseeable future. These trends may also adversely impact the Company's results of operations, net cash flows and financial positions, including our shareholder's equity.**  
(Emphasis supplied.)

1           AWWC has already put its shareholders on notice, per page 28 of AWWC's SEC  
2           Form 10-K, that **"increases in pension and other postretirement costs as a result of**  
3           **reduced plan assets may not be fully recoverable from our customers."**

4           I disagree with Mr. Kiger's position stated at page 12, lines 16-18 that "Arizona-  
5           American must recover all of its known and measureable pension expense, especially  
6           pension expense related to the Service Company, in order for it to recover its cost of  
7           service." I disagree with this AAWC position because the function of ratemaking is not to  
8           guarantee that a utility can collect from ratepayers all of its expenses, including expenses  
9           that are unusually high during periods outside of a test year because of unprecedented  
10          market conditions. Rather, a reasonable and normal amount of expenses should be  
11          allowed. AAWC's 2009 pension expense, including the Service Company portion that is  
12          charged to AAWC through the affiliated Management Fee, is abnormally high in  
13          comparison with historical levels of such expense, and the reason it is abnormally high is  
14          due to unusual and perhaps unprecedented investment market conditions that were  
15          experienced. Such market conditions have alleviated somewhat, as evidenced by the  
16          negative pension plan asset return achieved by AWWC in 2008 versus the relatively  
17          robust return achieved in 2009. Basing rates on a 2009 amount of pension expense for  
18          AAWC directly or for the affiliated Service Company, as AWWC has requested, should  
19          be rejected.

20          Removing AAWC's requested 22.2 percent post test year increase for Service  
21          Company benefit costs is thus a necessary adjustment, and should be adopted. This  
22          adjustment removes AAWC's requested post-test year increase to Affiliate Management  
23          Fees for a 22.22 percent increase in affiliate employee benefit costs. The Company has

requested percentage increases in affiliate employee benefits expense and payroll taxes as follows:

Post Test Year Percentage Increases In Affiliate Employee Benefits Requested by AAWC	
Account	Percent Increase Over 2008
504100 Group Insurance	0.00%
505100 PBOP	26.34%
506100 Pension	72.92%
507100 401k	4.00%
508100 EIP	4.00%
508101 DCP	4.00%
508200 ESPP Oper AG	4.00%
685320 FUTA	4.00%
685325 FICA	4.00%
685350 SUTA	4.00%
Affiliate Employee Benefits Weighted Average Increase	22.22%

The affiliate expenses for pensions and OPEB (PBOP) are being addressed below, by adjusting the 2008 test year recorded amount to a normalized amount, based on a three-year average of 2006-2008. AAWC has failed to substantiate that the other expense, such as affiliate federal and state unemployment taxes and other benefits should be increased beyond the test year recorded level. Expense for the five districts is reduced by \$274,909 as shown on Schedule C-10, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Employee Benefits

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (53,795)	\$ (70,111)	\$ (70,978)	\$ (43,347)	\$ (36,678)	\$ (274,909)

**C-11 Affiliate Management Fees – Remove Affiliate Incentive Compensation Expense**

**Q. Have you revised Adjustment C-11 as a result of AAWC's rebuttal testimony?**

A. No. This adjustment removes all identifiable incentive compensation expense included in the affiliate Management Fees for the 2008 test year. Expense for the five districts is reduced by \$256,853 as shown on Schedule C-11 and summarized on the schedule below.

Summary of Adjustments to Management Fees - Affiliate Incentive Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (50,261)	\$ (65,506)	\$ (66,317)	\$ (40,500)	\$ (34,269)	\$ (256,853)

**Q. Why should 100 percent of the affiliate incentive compensation expense be removed in the current AAWC rate case, when only 30 percent was removed in two recent AAWC rate cases?**

A. A 30 percent disallowance for incentive compensation was used for AAWC employees and for allocated Service Company incentive compensation in recent prior AAWC rate cases, including Decision Nos. 71410 and 68858. This was apparently done because the parties to those prior cases, which included AAWC, Staff and RUCO, did not attempt to distinguish the source of the financial trigger leading to the payment of incentive compensation, and apparently made no distinction between incentive compensation for AAWC's own employees, and the incentive compensation expense charged to AAWC for affiliated Service Company employees as part of the Management Fee.

The AIP plan indicates that, in 2008, more than 85% of the operating income target for the entire Company (meaning the parent, AAWC) had to be achieved before incentive compensation was awarded based on the corporate financial component of the

1 Plan, although such an award could be made on the Divisional/Regional and State  
2 financial components if operating income exceeded 85% of the target. In addition, more  
3 than 75% of the Corporate operating income target had to be achieved in order for any  
4 payments to be made on any components of the Plan for the entire Company.

5 Consequently, I believe it is reasonable and appropriate to exclude 100 percent of the  
6 incentive compensation expense that is charged to AAWC for affiliated Service Company  
7 employees as part of the American Water Works Management Fee charges. American  
8 Water Works' corporate financial income is only moderately influenced by AAWC  
9 operating results and is heavily influenced by non-Arizona jurisdictional operations, and is  
10 also impacted by American Water Works' non-regulated operations.

11 Additionally, as described above, in conjunction with my discussion of Adjustment  
12 C-3, Karla O. Teasley, the President of Illinois-American Water Company has  
13 acknowledged in public testimony that her water utility (which is an affiliate of AAWC)  
14 has been denied recovery of incentive compensation expense by the regulatory authority  
15 in that jurisdiction due to the presence of a parent company financial trigger.<sup>26</sup>

16 Additionally, in a recent decision, the West Virginia Commission (while allowing utility  
17 direct incentive compensation expense) disallowed affiliate incentive compensation  
18 expense (as well as merit increases for utility employees) because such expenses were  
19 determined to be unreasonable during periods of economic hardship and high  
20 unemployment, and consequently were deemed to not meet a prudence test given the  
21 recent financial conditions and economic turmoil.<sup>27</sup>

<sup>26</sup> See excerpt from her testimony in ICC Docket 09-0319, included in Attachment RCS-8.

<sup>27</sup> Excerpts from an Order dated November 30, 2009, of the West Virginia Commission in a rate case decision involving Dominion Hope Gas are also included in Attachment RCS-8.

1 A disallowance of 100 percent of the incentive compensation for the affiliated  
2 Service Company employees who charge AAWC via the Management Fee is appropriate  
3 because the award to Service Company employees is dependent upon AWWC corporate  
4 operating income and corporate financial targets. It is inappropriate to charge AAWC  
5 ratepayers for affiliate incentive compensation that is premised on a parent company  
6 financial trigger. The AWWC corporate operating income and corporate financial results  
7 are influenced by operating income of non-jurisdictional and non-regulated operations of  
8 American Water Works. Arizona ratepayers should not have to pay for incentive  
9 compensation that is tied to American Water Works corporate or non-jurisdictional and  
10 non-regulated income or on non-Arizona jurisdictional operations or non-regulated  
11 operations-based financial achievements.

12  
13 **C-12 Affiliate Management Fees – Normalize Affiliate Pension Expense**

14 **Q. Are you modifying Adjustment C-12 as a result of AAWC's rebuttal?**

15 A. No. This adjustment normalizes the amount of affiliate pension expense that was included  
16 in the Management Fee charges to AAWC for the 2008 test year. The affiliate employees  
17 participate in the same AWWC pension plan (subject to eligibility restrictions) as do  
18 AAWC employees. Similar to the adjustment for the pension expense for AAWC,  
19 discussed above in conjunction with Adjustment C-5, I have provided for a normalized  
20 expense based on a two-year average of 2007-2008. Expense for the five districts is  
21 reduced by \$4,257 as shown on Schedule C-12, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (833)	\$ (1,086)	\$ (1,099)	\$ (671)	\$ (568)	\$ (4,257)

**Q. Do you have any other comments on pension expense?**

**A.** Yes. This adjustment is not very large. The most important issues concerning pension expense for AAWC direct employees and for Service Company allocated costs for pension expense involve the removal of the abnormally high 2009 amounts that AAWC has requested, which are addressed, along with other issues relating to pension expense in my surrebuttal testimony above, in conjunction with Adjustments C-5 and C-10.

**C-13 Affiliate Management Fees – Normalize Affiliate OPEB Expense**

**Q. Are you modifying Adjustment C-13 as a result of AAWC's rebuttal?**

**A.** No. This adjustment normalizes the amount of OPEB expense that was included in the affiliate Management Fee charges to AAWC for the 2008 test year. The affiliate employees participate in the same AWWC OPEB plan (subject to eligibility restrictions) as do AAWC employees. Similar to the adjustment for the pension expense for AAWC, discussed above in conjunction with Adjustment C-6, I have provided for a normalized expense based on a two-year average of 2006-2008. Expense for the five districts is reduced by \$7,206 as shown on Schedule C-13 and summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (1,410)	\$ (1,838)	\$ (1,860)	\$ (1,136)	\$ (961)	\$ (7,206)

1  
2 **Q. What other comments do you have about this adjustment?**

3 A. This adjustment is not very large. As noted above, the Company's attempt to use a 2009  
4 amount for OPEBs has a much smaller impact than its request to use an abnormally high  
5 2009 amount for pension expense. I address pension expense for AAWC direct  
6 employees and for Service Company allocated costs for pension expense involving the  
7 removal of the abnormally high 2009 amounts that AAWC has requested along with other  
8 issues related to pension expense in my surrebuttal testimony above, in conjunction with  
9 Adjustments C-5 and C-10.

10  
11 **C-14 Affiliate Management Fees – Remove Affiliate “Business Development” Costs**

12 **Q. Please explain Adjustment C-14.**

13 A. This adjustment removes all identifiable affiliate “Business Development” costs included  
14 in the affiliate Management Fees for the 2008 test year. Expense for the five districts is  
15 reduced by \$48,232 as shown on Schedule C-14 and as summarized in the table below.

Summary of Adjustments to Management Fees - Affiliate Business Development Costs

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (9,438)	\$ (12,301)	\$ (12,453)	\$ (7,605)	\$ (6,435)	\$ (48,232)

16  
17 These charges should be removed because they are unnecessary for the provision of safe,  
18 reliable and reasonably priced water and wastewater utility service in Arizona. Similar  
19 costs were removed by the California PUC in the most recent California American Water  
20 rate case.

21 AAWC has agreed in its rebuttal filing that these expenses should be removed.

**C-15 Interest Synchronization (All Districts)**

**Q. Have you updated Adjustment C-15?**

A. Yes. The interest synchronization adjustment applies the weighted cost of debt to the calculation of test year income tax expense. After adjustments, my proposed rate base differs from that of the Company. Additionally, the weighted cost of debt recommended by RUCO witness Rigsby differs from that requested by AAWC. This results in an adjustment to the amount of synchronized interest included in the tax calculation. The calculation of the interest synchronization adjustment is shown on Attachments RCS-6 (for water) and RCS-7 (for wastewater), Schedule C-15. This adjustment decreases income tax expense and increases the Company's achieved operating income by a similar amount, as summarized in the below table.

Summary of Adjustments to Income Tax Expense for Interest Synchronization

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjustment	\$ (9,934)	\$ 17,357	\$ 19,177	\$ (1,096)	\$ (6,977)	\$ 18,527

**C-16 Depreciation Expense (Sun City Water)**

**Q. Have you revised RUCO Adjustment C-16 as a result of AAWC's rebuttal?**

A. No. As shown on Attachment B-6, Schedule C-16, AAWC's proposed depreciation expense for Sun City Water is reduced by \$36,961 based on applying the applicable depreciation rates to the plant adjustment. The related adjustment to plant was discussed above in conjunction with my rate base adjustment B-1.

**C-17 Depreciation Expense (Agua Fria Wastewater)**

**Q. Have you revised RUCO Adjustment C-17 as a result of AAWC's rebuttal?**

A. No. This adjustment is shown on Attachment RCS-7, Schedule C-7 and reduces depreciation expense for Anthem/Agua Fria Wastewater by \$2,853 relating to the removal of two 75-horsepower pumps that were retired from plant in service. The retirement of those pumps was covered in my rate base shown on Attachment RCS-7, Schedule B-7, discussed above. AAWC indicated in its rebuttal filing that it agreed with the removal of such pumps.

**C-18 Depreciation Expense (Anthem Water)**

**Q. Please explain Adjustment C-18.**

A. This adjustment reflects the impact in Depreciation Expense related to a reclassification of \$22,289 from Account 304300 to Account 320100, as described above, under "Other Rate Base Adjustments". Depreciation Expense for Anthem Water is increased by \$1,202 as shown on Attachment RCS-6, Schedule C-18.

**C-19 Depreciation Expense (Anthem/Agua Fria Wastewater)**

**Q. Please explain Adjustment C-19.**

A. This adjustment reflects the impact on Depreciation Expense related to a reclassification of \$487,000 from Account 354400, Structures and Improvements, to Account 355500, Power Generation Equipment, as described above, under "Other Rate Base Adjustments". Depreciation Expense for Anthem/Agua Fria Wastewater is increased by \$13,392 as shown on Attachment RCS-7, Schedule C-19.

**Other Expense Adjustments**

**Q. Have you evaluated all of the expense adjustments addressed in AAWC's rebuttal?**

A. No. Failure to address an adjustment in my surrebuttal testimony that was discussed in AAWC's rebuttal should not be interpreted as either an endorsement in favor of, or a position against, making such adjustments.

**V. AAWC'S REBUTTAL FILING REQUEST FOR A MAJOR NEW ACCOUNTING DEFERRAL**

**Q. Has AAWC made a request in its rebuttal filing for a major new accounting deferral?**

A. Yes. AAWC witness Kiger's rebuttal testimony has presented a new Company request for a major new accounting deferral. Specifically, AAWC seeks authority to defer replacement costs paid to the City of Glendale in association with the 99<sup>th</sup> Avenue Interceptor, pursuant to a City of Glendale Sewage Transportation Agreement ("Glendale Agreement"). Mr. Kiger's rebuttal testimony attaches the Glendale Agreement to his rebuttal testimony in his Rebuttal Exhibit MHK-1R, and has attached a replacement cost invoice from the City of Glendale in his Rebuttal Exhibit MHK-2R. That invoice is dated November 6, 2009 and bills AAWC for \$917,906 for 99<sup>th</sup> Avenue Interceptor Repair Costs. Mr. Kiger's Rebuttal Exhibit MHK-3R presents a 99<sup>th</sup> Avenue Interceptor Proposed Budget for fiscal years ending 9/30/2010 through 9/30/2017. That document indicates a "Revision Date" of 12/15/2009. At page 3 of Mr. Kiger's rebuttal testimony, AAWC "requests that the Commission authorize an accounting order in the decision in

1           this case to defer these costs, as well as future similar costs, for consideration of rate  
2           recovery in a future rate case.”  
3

4       **Q.    Should this AAWC rebuttal filing request for a major new accounting deferral be**  
5       **granted in the current AAWC rate case?**

6       A.    No. The Glendale invoice that bills AAWC for \$917,906 is dated November 6, 2009.  
7           Presumably AAWC was aware of this since early November 2009. For AAWC to wait  
8           several months, until its rebuttal filing on March 22, 2010, to raise this issue puts the other  
9           interested parties at a disadvantage. AAWC’s receipt of the Glendale invoice occurred  
10          well after the end of the test year, and may be in dispute between AAWC and Glendale.  
11          Thus, it is not apparent why this issue needs to be decided in the current AAWC rate case.  
12          Perhaps it could be more appropriately addressed in a separately filed request for an  
13          accounting deferral, similar to the Company’s May 15, 2009 request for an accounting  
14          deferral filed in Docket No. 09-0241 for pensions. As a separate filing, this request by  
15          AAWC can receive the attention and scrutiny it deserves. As another rate case issue,  
16          presented for the first time in AAWC’s rebuttal, it may not receive adequate scrutiny, and  
17          a full record including explanations concerning the apparently retroactive billing from  
18          Glendale may be lacking.  
19

20       **Q.    Why do you say there are concerns about the apparently retroactive billing?**

21       A.    There are concerns about this large and apparently at least partially retroactive billing. At  
22          page 3, line 19 of his rebuttal, Mr. Kiger states that the \$917,906 relates to replacements

1           that occurred from December 2005 to April 2009. This raises issues about retroactive cost  
2           recovery.

3  
4       **Q.    What other concerns are presented by this AAWC request?**

5       A.    Singling out such a billing for special accounting or ratemaking treatment also raises  
6           concerns about single-issue ratemaking.

7                   Additionally, at page 3, lines 9-13, Mr. Kiger states that AAWC has not yet paid  
8           the invoice, and the amount the Company ultimately pays may differ from the invoiced  
9           amount as discussions continue between AAWC and the City of Glendale. Given these  
10          circumstances, the invoiced amount does not appear to be a known and measurable  
11          expense, especially in the context of the 2008 test year being used in the current AAWC  
12          rate case.

13  
14       **Q.    What do you recommend?**

15       A.    Because of the timing of its request – presented for the first time in AAWC's rebuttal –  
16           and because of such other concerns briefly described above, this request by AAWC for a  
17           major new accounting deferral should be rejected in the current AAWC rate case.

18  
19       **Q.    Does this conclude your testimony?**

20       A.    Yes, it does.

**Arizona American Water Company**  
**Docket No. W-01303A-09-0343**  
**Attachment RCS-6**  
**Accompanying the Surrebuttal Testimony of Ralph Smith**  
**RUCO Accounting Schedules - Water Districts**

Number	Description	No. of Pages	Page No.	Revised/ New
<b>Revenue Requirement Summary Schedules - Total Water</b>				
A	Calculation of Revenue Deficiency (Sufficiency)	1	2	Revised
A-1	Gross Revenue Conversion Factor	1	3	Revised
B	Adjusted Rate Base	1	4	Revised
B.1	Summary of Rate Base Adjustments	1	5	Revised
C	Adjusted Net Operating Income	1	6	Revised
C.1	Summary of Net Operating Income Adjustments	4	7-10	Revised
D	Capital Structure and Cost Rates	1	11	
<b>Revenue Requirement Summary Schedules - Anthem Water</b>				
A (A)	Calculation of Revenue Deficiency (Sufficiency)	1	12	Revised
A-1(A)	Gross Revenue Conversion Factor	1	13	Revised
B(A)	Adjusted Rate Base	1	14	Revised
B.1(A)	Summary of Rate Base Adjustments	1	15	Revised
C(A)	Adjusted Net Operating Income	1	16	Revised
C.1(A)	Summary of Net Operating Income Adjustments	3	17-19	Revised
<b>Revenue Requirement Summary Schedules - Sun City Water</b>				
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	20	Revised
A-1(SC)	Gross Revenue Conversion Factor	1	21	Revised
B (SC)	Adjusted Rate Base	1	22	Revised
B.1 (SC)	Summary of Rate Base Adjustments	1	23	Revised
C (SC)	Adjusted Net Operating Income	1	24	Revised
C.1 (SC)	Summary of Net Operating Income Adjustments	3	25-27	Revised
<b>Rate Base Adjustments</b>				
B-1	Post-Test Year Additions to Plant - Well 5.1 - Sun City Water	1	28	
B-3	Contributions In Aid of Construction	1	29	
B-4	Cash Working Capital	3	30-32	Revised
B-5	Youngtown Plant - Sun City Water	1	33	New
B-9	Accumulated Deferred Income Taxes	1	34	New
<b>Net Operating Income Adjustments</b>				
C-1	Customer Annualization Correction - Anthem Water	1	35	Revised
C-2	Rate Case Expense	1	36	
C-3	Achievement Incentive Pay	1	37	
C-4	Stock-Based Compensation	1	38	Revised
C-5	Pension Expense	1	39	
C-5.1	Calculations for pension expense adjustment	2	40-41	
C-6	OPEB Expense	1	42	
C-7	Dues, Donations & Miscellaneous Expenses	1	43	
C-8	Tank Maintenance Expense - Sun City Water	1	44	
C-9	Management Fees - Other Expenses	1	45	
C-10	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits	1	46	
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense	1	47	
C-12	Management Fees - Normalize Affiliate Pension Expense	1	48	
C-13	Management Fees - Normalize Affiliate OPEB Expense	1	49	
C-14	Management Fees - Remove Business Development Expense	1	50	
C-15	Interest Synchronization	1	51	Revised
C-16	Depreciation Expense - Well 5.1 - Sun City Water	1	52	
C-18	Depreciation Expense - Anthem Water Reclassified Accounts	1	53	New
Total Pages (including Contents page)		53		

Arizona American Water Company - Total of Water Districts  
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule A  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	\$ 85,616,088	\$ 83,474,455	\$ (2,141,633)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 7,303,090	\$ 5,654,560	\$ (1,648,530)
4	Adjusted net operating income	C	\$ 1,375,533	\$ 2,043,394	\$ 667,861
5	Net operating income deficiency		\$ 5,927,557	\$ 3,611,166	\$ (2,316,391)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 9,816,374	\$ 5,980,307	\$ (3,836,067)
<u>Percentage Increase Over Current Rates</u>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 16,335,827	\$ 16,345,285	
9	Percentage Increase	L.7 / L.8	60.09%	36.59%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem and Sun City)

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C	RUCO Proposed
\$ 16,345,285	\$ 16,345,285
RUCO recommended rate increase (line 7 above)	\$ 5,980,307
Total revenues after reflecting RUCO recommended increase	\$ 22,325,592
Percentage change in revenues	36.59%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C	AAWC Proposed
\$ 16,335,827	\$ 16,335,827
AAWC proposed rate increase (line 7 above)	\$ 9,816,374
Total revenues after reflecting AAWC proposed increase	\$ 26,152,201
Percentage change in revenues	60.09%

Arizona American Water Company  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule A-1  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	Gross Revenue Conversion Factor	1.6561	1.6561

Notes and Source

Col.A: AAWC Filing, Schedule C-3

Combined state and federal income tax rate	38.60%	38.60%
--	--------	--------

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 3,611,172	60.38%
12 Federal Income Taxes	\$ 1,891,624	31.63%
13 State Income Taxes	\$ 416,708	6.97%
14 Property Taxes	\$ 42,246	0.71%
15 Uncollectibles	\$ 18,557	0.31%
16 Total Revenue Increase	\$ 5,980,307	100.00%
17 Total Revenue Increase (From Schedule A)	\$ 5,980,307	

Arizona American Water Company - Total of Water Districts  
Adjusted Rate Base

Attachment RCS-6  
Schedule B  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 149,301,020	\$ (1,272,682)	\$ 148,028,338
2	Phoenix Interconnection	\$ 5,000,000		\$ 5,000,000
3	Amortization of Phoenix Interconnection	\$ (116,667)		\$ (116,667)
4	Accumulated Depreciation	\$ (31,762,996)	\$ (441,956)	\$ (32,204,952)
5	<b>Net Utility Plant in Service</b>	<b>\$ 122,421,357</b>	<b>\$ (1,714,638)</b>	<b>\$ 120,706,719</b>
<b>Less:</b>				
6	Advances in Aid of Construction	\$ (24,418,393)	\$ -	\$ (24,418,393)
7	Contributions in Aid of Construction (net of amortization)	\$ (15,572,984)	\$ (69,262)	\$ (15,642,246)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (669,222)	\$ -	\$ (669,222)
10	Customer Meter Deposits	\$ (4,370)	\$ -	\$ (4,370)
11	Deferred Income Taxes and Credits	\$ 2,624,884	\$ (67,731)	\$ 2,557,153
12	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
13	<b>Total Reductions</b>	<b>\$ (38,040,085)</b>	<b>\$ (136,993)</b>	<b>\$ (38,177,078)</b>
<b>Plus:</b>				
14	Unamortized Finance Charges	\$ -	\$ -	\$ -
15	Deferred Tax Assets	\$ -	\$ -	\$ -
16	Deferred Debits	\$ 489,620	\$ -	\$ 489,620
17	Allowance for Working Capital	\$ 745,195	\$ (290,000)	\$ 455,195
18	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
19	<b>Total Additions</b>	<b>\$ 1,234,814</b>	<b>\$ (290,000)</b>	<b>\$ 944,814</b>
20	<b>Total Rate Base</b>	<b>\$ 85,616,088</b>	<b>\$ (2,141,631)</b>	<b>\$ 83,474,455</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Total of Water Districts  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule B.1  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	RUCO Adjustments	Post-Test Year Plant - Well 5.1 B-1	Contributions in Aid of Construction B-3		Cash Working Capital B-4 Revised	Youngstown Plant B-5		Accumulated Deferred Income Taxes B-9	
							New		New	
1	Gross Utility Plant in Service	\$ (1,272,682)	\$ (1,123,185)					\$ (149,497)		
2	Accumulated Depreciation	\$ (441,956)	\$ (463,964)					\$ 22,008		
3	Net Utility Plant in Service	\$ (1,714,638)	\$ (1,587,149)	\$ -	\$ -	\$ -		\$ (127,489)	\$ -	
<b>Less:</b>										
4	Advances in Aid of Construction	\$ -								
5	Contributions in Aid of Construction (net of amortization)	\$ (69,262)		\$ (69,262)						
6	Imputed Regulatory Advances	\$ -								
7	Imputed Regulatory Contributions	\$ -								
8	Deferred Income Taxes and Credits	\$ (67,731)							\$ (67,731)	
9	Investment Tax Credits and Deferred Credits	\$ -								
10	Total Reductions	\$ (136,993)	\$ -	\$ (69,262)	\$ -	\$ -		\$ -	\$ (67,731)	
<b>Plus:</b>										
11	Unamortized Finance Charges	\$ -								
12	Deferred Tax Assets	\$ -								
13	Deferred Debits	\$ -								
14	Allowance for Working Capital	\$ (290,000)			\$ (290,000)					
15	Utility Plant Acquisition Adjustment	\$ -								
16	Total Additions	\$ (290,000)	\$ -	\$ -	\$ (290,000)	\$ -		\$ -	\$ -	
17	Total Rate Base	\$ (2,141,631)	\$ (1,587,149)	\$ (69,262)	\$ (290,000)	\$ (127,489)		\$ (67,731)		

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Total of Water Districts  
Adjusted Net Operating Income

Attachment RCS-6  
Schedule C  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Water Revenues	\$ 16,335,827	\$ 9,458	\$ 16,345,285
2	Other Revenues	\$ 430,548	\$ -	\$ 430,548
3	<b>Total Revenues</b>	<b>\$ 16,766,375</b>	<b>\$ 9,458</b>	<b>\$ 16,775,833</b>
<b>Operating Expenses</b>				
4	Labor	\$ 1,979,757	\$ (55,530)	\$ 1,924,227
5	Purchased Water	\$ 625,435	\$ -	\$ 625,435
6	Fuel & Power	\$ 2,982,219	\$ -	\$ 2,982,219
7	Chemicals	\$ 140,388	\$ -	\$ 140,388
8	Waste Disposal	\$ 1,933	\$ -	\$ 1,933
9	Management Fees	\$ 2,667,400	\$ (358,748)	\$ 2,308,652
10	Group Insurance	\$ 563,722	\$ (4,683)	\$ 559,039
11	Pensions	\$ 357,243	\$ (131,839)	\$ 225,404
12	Regulatory Expense	\$ 139,775	\$ (51,307)	\$ 88,468
13	Insurance Other Than Group	\$ 164,808	\$ -	\$ 164,808
14	Customer Accounting	\$ 418,449	\$ -	\$ 418,449
15	Rents	\$ 93,842	\$ -	\$ 93,842
16	General Office Expense	\$ 138,590	\$ -	\$ 138,590
17	Miscellaneous	\$ 529,384	\$ (7,487)	\$ 521,897
18	Maintenance Expense	\$ 793,404	\$ (445,000)	\$ 348,404
19	Depreciation & Amortization	\$ 3,965,599	\$ (35,759)	\$ 3,929,840
20	General Taxes - Property Taxes	\$ 449,027	\$ -	\$ 449,027
21	General Taxes - Other	\$ 129,794	\$ -	\$ 129,794
22	Income Taxes	\$ (749,929)	\$ 431,951	\$ (317,978)
23	<b>Total Operating Expenses</b>	<b>\$ 15,390,840</b>	<b>\$ (658,402)</b>	<b>\$ 14,732,438</b>
24	<b>Utility Operating Income</b>	<b>\$ 1,375,535</b>	<b>\$ 667,860</b>	<b>\$ 2,043,395</b>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (2,568,483)	\$ -	\$ (2,568,483)
27	Other Expense	\$ (32,427)	\$ -	\$ (32,427)
28	Gain/Loss Sale of Fixed Assets	\$ (7)	\$ -	\$ (7)
29	<b>Total Other Additions/Deductions From Income</b>	<b>\$ (2,600,917)</b>	<b>\$ -</b>	<b>\$ (2,600,917)</b>
30	<b>Net Profit (Loss)</b>	<b>\$ (1,225,382)</b>	<b>\$ 667,860</b>	<b>\$ (557,522)</b>
31	Rate Base	\$ 85,616,088	\$ (170,851)	\$ 85,445,237
32	Earned Rate of Return	1.61%		2.39%

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Attachment RCS-6  
Schedule C.1  
Docket No. W-01303A-09-0343  
Page 1 of 4  
Revised

Attachment RCS-6  
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Line No.	Description	RUCO Adjustments	Tank				
			Maintenance Expense C-1	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5
			Revised			Revised	
	<b>Revenues</b>						
1	Water Revenues	\$ 9,458	\$ 9,458				
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	<b>\$ 9,458</b>	<b>\$ 9,458</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
	<b>Operating Expenses</b>						
4	Labor	\$ (55,530)		\$ (33,107)		\$ (22,423)	
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (358,748)				\$ (15,004)	
10	Group Insurance	\$ (4,683)					
11	Pensions	\$ (131,839)					\$ (131,839)
12	Regulatory Expense	\$ (51,307)		\$ (51,307)			
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (7,487)					
18	Maintenance Expense	\$ (445,000)					
19	Depreciation & Amortization	\$ (35,759)					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	<b>PRE-TAX OPERATING EXPENSES</b>	<b>\$ (1,090,353)</b>	<b>\$ -</b>	<b>\$ (51,307)</b>	<b>\$ (33,107)</b>	<b>\$ (37,427)</b>	<b>\$ (131,839)</b>
16	<b>PRE-TAX OPERATING INCOME</b>	<b>\$ 1,099,811</b>	<b>\$ 9,458</b>	<b>\$ 51,307</b>	<b>\$ 33,107</b>	<b>\$ 37,427</b>	<b>\$ 131,839</b>
17	Income Taxes	\$ 431,951	\$ 3,651	\$ 19,805	\$ 12,779	\$ 14,447	\$ 50,890
18	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ (658,402)</b>	<b>\$ 3,651</b>	<b>\$ (31,502)</b>	<b>\$ (20,328)</b>	<b>\$ (22,980)</b>	<b>\$ (80,949)</b>
19	<b>OPERATING INCOME</b>	<b>\$ 667,860</b>	<b>\$ 5,807</b>	<b>\$ 31,502</b>	<b>\$ 20,328</b>	<b>\$ 22,980</b>	<b>\$ 80,949</b>

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Attachment RCS-6  
Schedule C.1  
Docket No. W-01303A-09-0343  
Page 2 of 4  
Revised

Attachment RCS-6  
Docket No. W-01303A-09-0343  
Page 8 of 53

Line No.	Description	OPEB Expense C-6	Dues, Donations & Misc. Expenses C-7	Tank Maintenance Expense C-8	Management Fees - Other Expenses C-9	Management Fees - 4% Post-Test Year Wage Increase C-9A New
1	Revenues					
2	Water Revenues					
3	Other Revenues					
	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
4	Operating Expenses					
5	Labor					
6	Purchased Water					
7	Fuel & Power					
8	Chemicals					
9	Waste Disposal					
10	Management Fees					
11	Group Insurance					
12	Pensions					
13	Regulatory Expense					
14	Insurance Other Than Group					
15	Customer Accounting					
16	Rents					
17	General Office Expense					
18	Miscellaneous					
19	Maintenance Expense					
20	Depreciation & Amortization					
21	General Taxes - Property Taxes					
22	General Taxes - Other					
23	PRE-TAX OPERATING EXPENSES	\$ (4,683)	\$ (7,487)	\$ (445,000)	\$ (36,747)	\$ (40,419)
24	PRE-TAX OPERATING INCOME	\$ 4,683	\$ 7,487	\$ 445,000	\$ 36,747	\$ 40,419
25	Income Taxes	\$ 1,808	\$ 2,890	\$ 171,770	\$ 14,184	\$ 15,602
26	TOTAL OPERATING EXPENSES	\$ (2,875)	\$ (4,597)	\$ (273,230)	\$ (22,563)	\$ (24,817)
27	OPERATING INCOME	\$ 2,875	\$ 4,597	\$ 273,230	\$ 22,563	\$ 24,817

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Attachment RCS-6  
Schedule C.1  
Docket No. W-01303A-09-0343  
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Revised

Test Year Ended March 31, 2008

Line No.	Description	Management					C-14
		Management Fees - Employee Benefits	Management Fees - Incentive Compensation	Management Fees - Normalize Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	
		C-10	C-11	C-12	C-13		
	<b>Revenues</b>						
1	Water Revenues						
2	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<b>Operating Expenses</b>						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees						
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous						
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	\$ (123,905)	\$ (115,767)	\$ (1,919)	\$ (3,248)	\$ (21,739)	
16	PRE-TAX OPERATING INCOME	\$ 123,905	\$ 115,767	\$ 1,919	\$ 3,248	\$ 21,739	
17	Income Taxes	\$ 47,827	\$ 44,686	\$ 741	\$ 1,254	\$ 8,391	
18	TOTAL OPERATING EXPENSES	\$ (76,078)	\$ (71,081)	\$ (1,178)	\$ (1,994)	\$ (13,348)	
19	OPERATING INCOME	\$ 76,078	\$ 71,081	\$ 1,178	\$ 1,994	\$ 13,348	

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Total of Water Districts  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Interest Synchronization C-15 Revised	Depreciation Expense Related to Post-Test Year Plant - Well 5.1 C-16	Depreciation Expense - Anthem Water Reclassified Accounts C-18 New
<b>Revenues</b>				
1	Water Revenues			
2	Other Revenues			
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>				
4	Labor			
5	Purchased Water			
6	Fuel & Power			
7	Chemicals			
8	Waste Disposal			
9	Management Fees			
10	Group Insurance			
11	Pensions			
12	Regulatory Expense			
13	Insurance Other Than Group			
14	Customer Accounting			
15	Rents			
16	General Office Expense			
17	Miscellaneous			
18	Maintenance Expense			
19	Depreciation & Amortization		\$ (36,961)	\$ 1,202
20	General Taxes - Property Taxes			
21	General Taxes - Other			
15	PRE-TAX OPERATING EXPENSES	\$ -	\$ (36,961)	\$ 1,202
16	PRE-TAX OPERATING INCOME	\$ -	\$ 36,961	\$ (1,202)
17	Income Taxes	\$ 7,423	\$ 14,267	\$ (464)
18	TOTAL OPERATING EXPENSES	\$ 7,423	\$ (22,694)	\$ 738
19	OPERATING INCOME	\$ (7,423)	\$ 22,694	\$ (738)

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Water Districts  
Capital Structure and Cost Rates

Attachment RCS-6  
Schedule D  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Percent (B)	Cost Rate (C)	Weighted Cost (D)
<b>Per Company</b>					
1	Long-Term Debt	\$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	\$ 154,949,595	45.15%	12.25%	5.53%
4	Total	\$ 343,157,735	100.00%		8.53%

**Per RUCO**

5	Long-Term Debt	\$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	\$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	\$ 154,949,595	39.15%	9.50%	3.72%
8	Total	\$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

**Notes and Source**

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)  
Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (A)	\$ 57,430,025	\$ 57,259,174	\$ (170,851)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 4,898,781	\$ 3,878,736	\$ (1,020,045)
4	Adjusted net operating income	C (A)	\$ 514,448	\$ 683,807	\$ 169,359
5	Net operating income deficiency		\$ 4,384,333	\$ 3,194,929	\$ (1,189,404)
6	Gross revenue conversion factor	A-1 (A)	1.6578	1.6578	
7	Revenue deficiency (Sufficiency)		\$ 7,268,177	\$ 5,296,426	\$ (1,971,751)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C (A), L.1	\$ 7,210,624	\$ 7,220,082	
9	Percentage Increase	L.7 / L.8	100.80%	73.36%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

**Calculation of RUCO recommended percentage increase to AAWC's base rates**

AAWC's adjusted water revenues per Schedule C (A)	RUCO Proposed
\$ 7,220,082	\$ 7,220,082
RUCO recommended rate increase (line 7 above)	\$ 5,296,426
Total revenues after reflecting RUCO recommended increase	\$ 12,516,508
Percentage change in revenues	73.36%

**Calculation of AAWC's proposed percentage increase to base rates**

AAWC's adjusted water revenues per Schedule C (A)	AAWC Proposed
\$ 7,210,624	\$ 7,210,624
AAWC proposed rate increase (line 7 above)	\$ 7,268,177
Total revenues after reflecting AAWC proposed increase	\$ 14,478,801
Percentage change in revenues	100.80%

Arizona American Water Company - Anthem Water  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule A-1 (A)  
Docket No. W-01303A-09-0343  
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Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.80%	0.80%
3	Bad Debt Expense	0.28%	0.28%
4	Taxable Income as a Percent	98.92%	98.92%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.29%	67.29%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.32%	60.32%
9	Gross Revenue Conversion Factor	1.6578	1.6578

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 3,194,927	60.32%
12 Federal Income Taxes	\$ 1,675,306	31.63%
13 State Income Taxes	\$ 369,055	6.97%
14 Property Taxes	\$ 42,423	0.80%
15 Uncollectibles	\$ 14,715	0.28%
16 Total Revenue Increase	\$ 5,296,426	100.00%
17 Total Revenue Increase (From Schedule A (A))	\$ 5,296,426	

Arizona American Water Company - Anthem Water  
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule B (A)  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 85,684,602	\$ -	\$ 85,684,602
2	Phoenix Interconnection	\$ 5,000,000	\$ -	\$ 5,000,000
3	Amortization of Phoenix Interconnection	\$ (116,667)	\$ -	\$ (116,667)
4	Accumulated Depreciation	\$ (12,789,099)	\$ -	\$ (12,789,099)
5	<b>Net Utility Plant in Service</b>	<u>\$ 77,778,836</u>	<u>\$ -</u>	<u>\$ 77,778,836</u>
<b>Less:</b>				
6	Advances in Aid of Construction	\$ (18,557,742)	\$ -	\$ (18,557,742)
7	Contributions in Aid of Construction (net of amortization)	\$ (2,393,271)	\$ (30,271)	\$ (2,423,542)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (326,764)	\$ -	\$ (326,764)
10	Customer Meter Deposits	\$ (1,920)	\$ -	\$ (1,920)
11	Deferred Income Taxes and Credits	\$ 720,067	\$ (18,580)	\$ 701,487
12	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
13	<b>Total Reductions</b>	<u>\$ (20,559,630)</u>	<u>\$ (48,851)</u>	<u>\$ (20,608,481)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 51,714	\$ -	\$ 51,714
16	Allowance for Working Capital	\$ 159,104 *	\$ (122,000)	\$ 37,104
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 210,818</u>	<u>\$ (122,000)</u>	<u>\$ 88,818</u>
19	<b>Total Rate Base</b>	<u>\$ 57,430,025</u>	<u>\$ (170,851)</u>	<u>\$ 57,259,174</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

\* Per Revised Schedule B-5 (Company did not revise Schedule B-1 for Anthem Water)

Arizona American Water Company - Anthem Water  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule B.1 (A)  
Docket No. W-1303A-09-0343  
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Revised

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction B-3	Cash Working Capital B-4 Revised	Accumulated Deferred Income Taxes B-9 New	
1	Gross Utility Plant in Service	\$ -				
2	Phoenix Interconnection	\$ -				
3	Amortization of Phoenix Interconnection	\$ -				
4	Accumulated Depreciation	\$ -				
5	<b>Net Utility Plant in Service</b>	\$ -	\$ -	\$ -		\$ -
<b>Less:</b>						
6	Advances in Aid of Construction	\$ -				
7	Contributions in Aid of Construction (net of amortization)	\$ (30,271)	\$ (30,271)			
8	Imputed Regulatory Advances	\$ -				
9	Imputed Regulatory Contributions	\$ -				
10	Customer Meter Deposits	\$ -				
11	Deferred Income Taxes and Credits	\$ (18,580)			\$ (18,580)	
12	Investment Tax Credits and Deferred Credits	\$ -				
13	<b>Total Reductions</b>	\$ (48,851)	\$ (30,271)	\$ -	\$ (18,580)	
<b>Plus:</b>						
13	Unamortized Finance Charges	\$ -				
14	Deferred Tax Assets	\$ -				
15	Deferred Debits	\$ -				
16	Allowance for Working Capital	\$ (122,000)		\$ (122,000)		
17	Utility Plant Acquisition Adjustment	\$ -				
18	<b>Total Additions</b>	\$ (122,000)	\$ -	\$ (122,000)	\$ -	
19	<b>Total Rate Base</b>	\$ (170,851)	\$ (30,271)	\$ (122,000)	\$ (18,580)	
		\$ (170,851)				

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Anthem Water  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule C (A)  
Docket No. W-01303A-09-0343  
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Revised

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Water Revenues	\$ 7,210,624	\$ 9,458	\$ 7,220,082
2	Other Revenues	\$ 272,650	\$ -	\$ 272,650
3	<b>Total Revenues</b>	<u>\$ 7,483,274</u>	<u>\$ 9,458</u>	<u>\$ 7,492,732</u>
<b>Operating Expenses</b>				
4	Labor	\$ 754,087	\$ (24,152)	\$ 729,935
5	Purchased Water	\$ 625,435	\$ -	\$ 625,435
6	Fuel & Power	\$ 1,259,637	\$ -	\$ 1,259,637
7	Chemicals	\$ 103,351	\$ -	\$ 103,351
8	Waste Disposal	\$ 1,933	\$ -	\$ 1,933
9	Management Fees	\$ 1,158,078	\$ (155,753)	\$ 1,002,325
10	Group Insurance	\$ 209,326	\$ (2,033)	\$ 207,293
11	Pensions	\$ 105,808	\$ (39,203)	\$ 66,605
12	Regulatory Expense	\$ 64,489	\$ (27,003)	\$ 37,486
13	Insurance Other Than Group	\$ 71,553	\$ -	\$ 71,553
14	Customer Accounting	\$ 183,101	\$ -	\$ 183,101
15	Rents	\$ 33,826	\$ -	\$ 33,826
16	General Office Expense	\$ 60,044	\$ -	\$ 60,044
17	Miscellaneous	\$ 229,300	\$ (3,250)	\$ 226,050
18	Maintenance Expense	\$ 140,803	\$ -	\$ 140,803
19	Depreciation & Amortization	\$ 2,399,893	\$ 1,202	\$ 2,401,095
20	General Taxes - Property Taxes	\$ 292,953	\$ -	\$ 292,953
21	General Taxes - Other	\$ 34,882	\$ -	\$ 34,882
22	Income Taxes	\$ (759,675)	\$ 90,292	\$ (669,383)
23	<b>Total Operating Expenses</b>	<u>\$ 6,968,825</u>	<u>\$ (159,901)</u>	<u>\$ 6,808,924</u>
24	<b>Utility Operating Income</b>	<u>\$ 514,448</u>	<u>\$ 169,359</u>	<u>\$ 683,807</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (1,722,901)		\$ (1,722,901)
27	Other Expense	\$ (14,079)		\$ (14,079)
28	Gain/Loss Sale of Fixed Assets	\$ (3)		\$ (3)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (1,736,983)</u>	<u>\$ -</u>	<u>\$ (1,736,983)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (1,222,535)</u>	<u>\$ 169,359</u>	<u>\$ (1,053,176)</u>
31	Rate Base	<u>\$ 57,430,025</u>	<u>\$ (170,851)</u>	<u>\$ 57,259,174</u>
32	Earned Rate of Return	<u>0.90%</u>		<u>1.19%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Customer Annualization Correction C-1 Revised	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4 Revised	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>								
1	Water Revenues	\$ 9,458	\$ 9,458					
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	<b>\$ 9,458</b>	<b>\$ 9,458</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Operating Expenses</b>								
4	Labor	\$ (24,152)		\$ (14,417)		\$ (9,735)		
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (155,753)		\$ (6,514)				\$ (2,033)
10	Group Insurance	\$ (2,033)						
11	Pensions	\$ (39,203)					\$ (39,203)	
12	Regulatory Expense	\$ (27,003)		\$ (27,003)				
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (3,250)						
18	Maintenance Expense	\$ -						
19	Depreciation & Amortization	\$ 1,202						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	PRE-TAX OPERATING EXPENSES	\$ (250,193)	\$ -	\$ (27,003)	\$ (14,417)	\$ (16,249)	\$ (39,203)	\$ (2,033)
16	PRE-TAX OPERATING INCOME	\$ 259,651	\$ 9,458	\$ 27,003	\$ 14,417	\$ 16,249	\$ 39,203	\$ 2,033
17	Income Taxes	\$ 90,292	\$ 3,651	\$ 10,423	\$ 5,565	\$ 6,272	\$ 15,132	\$ 785
18	TOTAL OPERATING EXPENSES	\$ (159,901)	\$ 3,651	\$ (16,580)	\$ (8,852)	\$ (9,977)	\$ (24,071)	\$ (1,248)
19	OPERATING INCOME	\$ 169,359	\$ 5,807	\$ 16,580	\$ 8,852	\$ 9,977	\$ 24,071	\$ 1,248

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Misc. Expenses C-7	Management Fees - Other Expenses C-9	Management Fees - 4% Post-Test Year Wage Increase C-9A New	Management Fees - Employee Benefits C-10	Management Fees - Incentive Compensation C-11	Management Fees - Normalize Affiliate Pension Expense C-12
1	<b>Revenues</b>						
2	Water Revenues						
3	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	<b>Operating Expenses</b>						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees		\$ (15,954)	\$ (17,548)	\$ (53,795)	\$ (50,261)	\$ (833)
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	\$ (3,250)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	\$ (3,250)	\$ (15,954)	\$ (17,548)	\$ (53,795)	\$ (50,261)	\$ (833)
16	PRE-TAX OPERATING INCOME	\$ 3,250	\$ 15,954	\$ 17,548	\$ 53,795	\$ 50,261	\$ 833
17	Income Taxes	\$ 1,255	\$ 6,158	\$ 6,774	\$ 20,765	\$ 19,401	\$ 322
18	TOTAL OPERATING EXPENSES	\$ (1,995)	\$ (9,796)	\$ (10,774)	\$ (33,030)	\$ (30,860)	\$ (511)
19	OPERATING INCOME	\$ 1,995	\$ 9,796	\$ 10,774	\$ 33,030	\$ 30,860	\$ 511

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Anthem Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalized Affiliate OPEB Expense C-13	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15 Revised	Depreciation Expense - Anthem Water Reclassified Accounts C-18 New
	<b>Revenues</b>				
1	Water Revenues				
2	Other Revenues				
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -
	<b>Operating Expenses</b>				
4	Labor				
5	Purchased Water				
6	Fuel & Power				
7	Chemicals				
8	Waste Disposal				
9	Management Fees	\$ (1,410)	\$ (9,438)		
10	Group Insurance				
11	Pensions				
12	Regulatory Expense				
13	Insurance Other Than Group				
14	Customer Accounting				
15	Rents				
16	General Office Expense				
17	Miscellaneous				
18	Maintenance Expense				
19	Depreciation & Amortization				
20	General Taxes - Property Taxes				
21	General Taxes - Other				
15	PRE-TAX OPERATING EXPENSES	\$ (1,410)	\$ (9,438)	\$ -	\$ 1,202
16	PRE-TAX OPERATING INCOME	\$ 1,410	\$ 9,438	\$ -	\$ (1,202)
17	Income Taxes	\$ 544	\$ 3,643	\$ (9,934)	\$ (464)
18	TOTAL OPERATING EXPENSES	\$ (866)	\$ (5,795)	\$ (9,934)	\$ 738
19	OPERATING INCOME	\$ 866	\$ 5,795	\$ 9,934	\$ (738)

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Sun City Water  
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule A (SC)  
Docket No. W-01303A-09-0343  
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Revised

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	\$ 28,186,063	\$ 26,215,284	\$ (1,970,779)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 2,404,271	\$ 1,775,823	\$ (628,448)
4	Adjusted net operating income	C (SC)	\$ 861,085	\$ 1,359,588	\$ 498,503
5	Net operating income deficiency		\$ 1,543,186	\$ 416,235	\$ (1,126,951)
6	Gross revenue conversion factor	A-1 (SC)	1.6402	1.6402	
7	Revenue deficiency (Sufficiency)		\$ 2,531,127	\$ 682,709	\$ (1,848,418)
Percentage Increase Over Current Rates					
8	Revenue from Sales to Retail Customers	Sch C (SC), L.1	\$ 9,125,203	\$ 9,125,203	
9	Percentage Increase	L.7 / L.8	27.74%	7.48%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

**Calculation of RUCO recommended percentage increase to AAWC's base rates**

AAWC's adjusted water revenues per Schedule C (SC)	RUCO Proposed
\$ 9,125,203	\$ 9,125,203
RUCO recommended rate increase (line 7 above)	\$ 682,709
Total revenues after reflecting RUCO recommended increase	\$ 9,807,912
Percentage change in revenues	7.48%

**Calculation of AAWC's proposed percentage increase to base rates**

AAWC's adjusted water revenues per Schedule C (SC)	AAWC Proposed
\$ 9,125,203	\$ 9,125,203
AAWC proposed rate increase (line 7 above)	\$ 2,531,127
Total revenues after reflecting AAWC proposed increase	\$ 11,656,330
Percentage change in revenues	27.74%

Arizona American Water Company - Sun City Water  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule A-1 (SC)  
Docket No. W-01303A-09-0343  
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Revised

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.34%	0.34%
3	Bad Debt Expense	0.09%	0.09%
4	Taxable Income as a Percent	99.57%	99.57%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.94%	67.94%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.97%	60.97%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6402</b>	<b>1.6402</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

	Amount	Percent
11 Net Income	\$ 416,236	60.97%
12 Federal Income Taxes	\$ 215,947	31.63%
13 State Income Taxes	\$ 47,571	6.97%
14 Property Taxes	\$ 2,330	0.34%
15 Uncollectibles	\$ 625	0.09%
16 Total Revenue Increase	\$ 682,709	100.00%
17 Total Revenue Increase (From Schedule A (SC))	\$ 682,709	

Arizona American Water Company - Sun City Water  
Adjusted Rate Base

Attachment RCS-6  
Schedule B (SC)  
Docket No. W-01303A-09-0343  
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Revised

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 63,616,418	\$ (1,272,682)	\$ 62,343,736
2	Accumulated Depreciation	\$ (18,973,897)	\$ (441,956)	\$ (19,415,853)
3	<b>Net Utility Plant in Service</b>	<b>\$ 44,642,520</b>	<b>\$ (1,714,638)</b>	<b>\$ 42,927,883</b>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (5,860,651)	\$ -	\$ (5,860,651)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,179,713)	\$ (38,991)	\$ (13,218,704)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (342,458)	\$ -	\$ (342,458)
8	Customer Meter Deposits	\$ (2,450)	\$ -	\$ (2,450)
9	Deferred Income Taxes and Credits	\$ 1,904,817	\$ (49,151)	\$ 1,855,666
10	Investment Tax Credits and Deferred Credits	\$ -	\$ -	\$ -
11	<b>Total Reductions</b>	<b>\$ (17,480,455)</b>	<b>\$ (88,142)</b>	<b>\$ (17,568,597)</b>
<b>Plus:</b>				
12	Unamortized Finance Charges	\$ -	\$ -	\$ -
13	Deferred Tax Assets	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 437,906	\$ -	\$ 437,906
15	Allowance for Working Capital	\$ 586,091	\$ (168,000)	\$ 418,091
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	<b>Total Additions</b>	<b>\$ 1,023,997</b>	<b>\$ (168,000)</b>	<b>\$ 855,997</b>
18	<b>Total Rate Base</b>	<b>\$ 28,186,063</b>	<b>\$ (1,970,780)</b>	<b>\$ 26,215,284</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City Water  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule B.1 (SC)  
Docket No. W-01303A-09-0343  
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Revised

Line No.	Description	RUCO Adjustments	Post-Test Year Plant - Well 5.1 B-1	Contributions in Aid of Construction B-3		Cash Working Capital B-4 Revised	Youngstown Plant B-5		Accumulated Deferred Income Taxes B-9	
				Construction	Aid of Construction		New	New	Deferred	New
1	Gross Utility Plant in Service	\$ (1,272,682)	\$ (1,123,185)					\$ (149,497)		
2	Accumulated Depreciation	\$ (441,956)	\$ (463,964)					\$ 22,008		
3	Net Utility Plant in Service	\$ (1,714,638)	\$ (1,587,149)	\$ -	\$ -	\$ -		\$ (127,489)	\$ -	
<b>Less:</b>										
4	Advances in Aid of Construction	\$ -								
5	Contributions in Aid of Construction (net of amortization)	\$ (38,991)		\$ (38,991)						
6	Imputed Regulatory Advances	\$ -								
7	Imputed Regulatory Contributions	\$ -								
8	Customer Meter Deposits	\$ -								
9	Deferred Income Taxes and Credits	\$ (49,151)							\$ (49,151)	
10	Investment Tax Credits and Deferred Credits	\$ -								
11	Total Reductions	\$ (88,142)	\$ -	\$ (38,991)	\$ -	\$ -		\$ -	\$ (49,151)	
<b>Plus:</b>										
12	Unamortized Finance Charges	\$ -								
13	Deferred Tax Assets	\$ -								
14	Deferred Debits	\$ -								
15	Allowance for Working Capital	\$ (168,000)			\$ (168,000)					
16	Utility Plant Acquisition Adjustment	\$ -								
17	Total Additions	\$ (168,000)	\$ -	\$ -	\$ (168,000)	\$ (168,000)		\$ -	\$ -	
18	Total Rate Base	\$ (1,970,780)	\$ (1,587,149)	\$ (38,991)	\$ (168,000)	\$ (127,489)		\$ (49,151)		

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Water  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule C (SC)  
Docket No. W-01303A-09-0343  
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Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Water Revenues	\$ 9,125,203	\$ -	\$ 9,125,203
2	Other Revenues	\$ 157,898	\$ -	\$ 157,898
3	<b>Total Revenues</b>	<u>\$ 9,283,101</u>	<u>\$ -</u>	<u>\$ 9,283,101</u>
<b>Operating Expenses</b>				
4	Labor	\$ 1,225,670	\$ (31,378)	\$ 1,194,292
5	Purchased Water	\$ -	\$ -	\$ -
6	Fuel & Power	\$ 1,722,582	\$ -	\$ 1,722,582
7	Chemicals	\$ 37,037	\$ -	\$ 37,037
8	Waste Disposal	\$ -	\$ -	\$ -
9	Management Fees	\$ 1,509,322	\$ (202,994)	\$ 1,306,328
10	Group Insurance	\$ 354,396	\$ (2,650)	\$ 351,746
11	Pensions	\$ 251,435	\$ (92,636)	\$ 158,799
12	Regulatory Expense	\$ 75,286	\$ (24,304)	\$ 50,982
13	Insurance Other Than Group	\$ 93,255	\$ -	\$ 93,255
14	Customer Accounting	\$ 235,348	\$ -	\$ 235,348
15	Rents	\$ 60,016	\$ -	\$ 60,016
16	General Office Expense	\$ 78,546	\$ -	\$ 78,546
17	Miscellaneous	\$ 300,084	\$ (4,237)	\$ 295,847
18	Maintenance Expense	\$ 652,601	\$ (445,000)	\$ 207,601
19	Depreciation & Amortization	\$ 1,565,706	\$ (36,961)	\$ 1,528,745
20	General Taxes - Property Taxes	\$ 156,074	\$ -	\$ 156,074
21	General Taxes - Other	\$ 94,912	\$ -	\$ 94,912
22	Income Taxes	\$ 9,746	\$ 341,658	\$ 351,404
23	<b>Total Operating Expenses</b>	<u>\$ 8,422,016</u>	<u>\$ (498,503)</u>	<u>\$ 7,923,513</u>
24	<b>Utility Operating Income</b>	<u>\$ 861,085</u>	<u>\$ 498,503</u>	<u>\$ 1,359,588</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (845,582)		\$ (845,582)
27	Other Expense	\$ (18,348)		\$ (18,348)
28	Gain/Loss Sale of Fixed Assets	\$ (4)		\$ (4)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (863,934)</u>	<u>\$ -</u>	<u>\$ (863,934)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (2,849)</u>	<u>\$ 498,503</u>	<u>\$ 495,654</u>
31	Rate Base	<u>\$ 28,186,063</u>	<u>\$ (1,970,780)</u>	<u>\$ 26,215,283</u>
32	Earned Rate of Return	<u>3.06%</u>		<u>5.19%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Attachment RCS-6  
Schedule C.1 (SC)  
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Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OP&B Expense C-6	Dues, Donations & Misc. Expenses C-7
<b>Revenues</b>								
1	Water Revenues	\$ -						
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor	\$ (31,378)		\$ (18,690)	\$ (12,688)			
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (202,994)			\$ (8,490)			
10	Group Insurance	\$ (2,650)						
11	Pensions	\$ (92,636)				\$ (92,636)		
12	Regulatory Expense	\$ (24,304)	\$ (24,304)					
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (4,237)						\$ (4,237)
18	Maintenance Expense	\$ (445,000)						
19	Depreciation & Amortization	\$ (36,961)						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	<b>PRE-TAX OPERATING EXPENSES</b>	\$ (840,161)	\$ (24,304)	\$ (18,690)	\$ (21,178)	\$ (92,636)	\$ (2,650)	\$ (4,237)
16	<b>PRE-TAX OPERATING INCOME</b>	\$ 840,161	\$ 24,304	\$ 18,690	\$ 21,178	\$ 92,636	\$ 2,650	\$ 4,237
17	Income Taxes	\$ 341,658	\$ 9,381	\$ 7,214	\$ 8,175	\$ 35,758	\$ 1,023	\$ 1,635
18	<b>TOTAL OPERATING EXPENSES</b>	\$ (498,503)	\$ (14,923)	\$ (11,476)	\$ (13,003)	\$ (56,878)	\$ (1,627)	\$ (2,602)
19	<b>OPERATING INCOME</b>	\$ 498,503	\$ 14,923	\$ 11,476	\$ 13,003	\$ 56,878	\$ 1,627	\$ 2,602

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Test Year Ended March 31, 2008

Line No.	Description	Tank Maintenance Expense	Management Fees - Other Expenses	Management Fees - 4% Post-Test Year Wage Increase	Management Fees - Employee Benefits	Management Fees - Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense
		C-8	C-9	C-9A New	C-10	C-11	C-12	C-13
<b>Revenues</b>								
1	Water Revenues							
2	Other Revenues							
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees	\$	(20,793)	\$ (22,871)	\$ (70,111)	\$ (65,506)	\$ (1,086)	\$ (1,838)
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous							
18	Maintenance Expense							
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	\$ (445,000)	\$ (20,793)	\$ (22,871)	\$ (70,111)	\$ (65,506)	\$ (1,086)	\$ (1,838)
16	PRE-TAX OPERATING INCOME	\$ 445,000	\$ 20,793	\$ 22,871	\$ 70,111	\$ 65,506	\$ 1,086	\$ 1,838
17	Income Taxes	\$ 171,770	\$ 8,026	\$ 8,828	\$ 27,063	\$ 25,285	\$ 419	\$ 709
18	TOTAL OPERATING EXPENSES	\$ (273,230)	\$ (12,767)	\$ (14,043)	\$ (43,048)	\$ (40,221)	\$ (667)	\$ (1,129)
19	OPERATING INCOME	\$ 273,230	\$ 12,767	\$ 14,043	\$ 43,048	\$ 40,221	\$ 667	\$ 1,129

\$ (445,000)

Notes and Source  
Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company - Sun City Water  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

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Schedule C.1 (SC)  
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Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15 Revised	Depreciation Expense Related to Post-Test Year Plant - Well 5.1 - Sun City Water C-16
<b>Revenues</b>				
1	Water Revenues			
2	Other Revenues			
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>				
4	Labor			
5	Purchased Water			
6	Fuel & Power			
7	Chemicals			
8	Waste Disposal			
9	Management Fees	\$ (12,301)		
10	Group Insurance			
11	Pensions			
12	Regulatory Expense			
13	Insurance Other Than Group			
14	Customer Accounting			
15	Rents			
16	General Office Expense			
17	Miscellaneous			
18	Maintenance Expense			
19	Depreciation & Amortization			\$ (36,961)
20	General Taxes - Property Taxes			
21	General Taxes - Other			
15	<b>PRE-TAX OPERATING EXPENSES</b>	\$ (12,301)	\$ -	\$ (36,961)
16	<b>PRE-TAX OPERATING INCOME</b>	\$ 12,301	\$ -	\$ 36,961
17	Income Taxes	\$ 4,748	\$ 17,357	\$ 14,267
18	<b>TOTAL OPERATING EXPENSES</b>	\$ (7,553)	\$ 17,357	\$ (22,694)
19	<b>OPERATING INCOME</b>	\$ 7,553	\$ (17,357)	\$ 22,694

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company  
Post-Test Year Additions to Plant - Well 5.1 - Sun City Water

Attachment RCS-6  
Schedule B-1  
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Test Year Ended December 31, 2008

Line No.	Description	Sun City Water	Reference
		(A)	
1	Remove Well 5.1 From Utility Plant in Service	\$ (1,587,149)	A
2	Reverse Retirement of Old Well	\$ 463,964	A&B
3	Gross Utility Plant in Service	<u>\$ (1,123,185)</u>	
3	Increase Accumulated Depreciation for Old Well	<u>\$ (463,964)</u>	B
4	Net Adjustment to Utility Plant in Service	<u>\$ (1,587,149)</u>	

Notes and Source

A: Amounts per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

B: Page 5 of the direct testimony of Company witness Linda J. Gutowski stated:

"The retirement of \$463,964 for the old Well #5.1 was deducted from plant and from accumulated depreciation"

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/ Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater* (E)	Total (F)	Reference
1	Reverse Company Adjustments to CIAC	\$ (30,271)	\$ (38,991)	\$ (65,490)	\$ (3,743)	\$ -	\$ (138,495)	A
2	Subtotal Water						\$ (69,262)	
3	Subtotal Wastewater						\$ (69,233)	
4	Total Adjustment						\$ (138,495)	

Notes and Source

A: Per Schedule B-2, Adjustment No. SLM-8 from AAWC filing

\* The Company's adjustment to CIAC related to Sun City West Wastewater netted to zero

Arizona American Water Company  
Cash Working Capital

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule B-4  
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Line No.	Description	Anthem Water		Sun City Water		Total Water		Reference
		(A)		(B)		(C)		
1	Cash Working Capital Requirement Per Filing	\$	75,089	\$	416,111	\$	491,200	A
2	RUCO Recommended Cash Working Capital Requirement	\$	(47,072)	\$	248,433	\$	201,361	B
3	Adjustment to Cash Working Capital	\$	(122,161)	\$	(167,678)	\$	(289,839)	
4	Adjustment to Cash Working Capital Rounded to Nearest \$000	\$	(122,000)	\$	(168,000)	\$	(290,000)	

Notes and Source

A: AAWC filing, Schedule B-6

B: See Schedules B-4 (A) and B-4 (SC)

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Cash Working Capital Required (H)	Reference
OPERATING EXPENSES									
1	\$ 754,087	\$ (24,152)	\$ 729,935	40.02	12.00	28.02	0.0768	\$ 56,043	
2	\$ 625,435		\$ 625,435	40.02	50.92	-10.89	(0.0298)	\$ (18,664)	
3	\$ 1,259,637		\$ 1,259,637	40.02	22.70	17.33	0.0475	\$ 59,801	
4	\$ 103,351		\$ 103,351	40.02	8.73	0.00	-	\$ -	b
5	\$ 1,933		\$ 1,933	40.02	4.55	35.47	0.0972	\$ 188	
6	\$ 1,158,078	\$ (155,753)	\$ 1,002,325	40.02	12.00	28.02	0.0768	\$ 76,957	a
7	\$ 209,326	\$ (2,033)	\$ 207,293	40.02	-13.70	53.73	0.1472	\$ 30,513	
8	\$ 105,808	\$ (39,203)	\$ 66,605	40.02	-2.37	42.39	0.1161	\$ 7,736	
9	\$ 71,553		\$ 71,553	40.02	-83.68	123.71	0.3389	\$ 24,251	
10	\$ 183,101		\$ 183,101	40.02	20.31	19.71	0.0540	\$ 9,889	c
11	\$ 33,826		\$ 33,826	40.02	0.00	40.02	0.1097	\$ 3,709	
12	\$ 229,300		\$ 229,300	40.02	8.89	31.13	0.0853	\$ 19,556	
13	\$ 140,803		\$ 140,803	40.02	33.61	6.41	0.0176	\$ 2,474	
14	\$ 124,533	\$ (30,253)	\$ 94,280	40.02	30.00	10.02	0.0275	\$ 2,589	
15	\$ 288,011		\$ 288,011	40.02	191.29	-151.27	(0.4144)	\$ (119,363)	
16	\$ 34,882		\$ 34,882	40.02	13.35	26.68	0.0731	\$ 2,550	
17	\$ 1,996,536	\$ 2,134,653	\$ 4,131,189	40.02	30.13	9.89	0.0271	\$ 111,984	
18	\$ 1,722,960	\$ 25,736	\$ 1,748,695	40.02	106.25	-66.23	(0.1814)	\$ (317,285)	
19	\$ 9,043,161	\$ 1,908,994	\$ 10,952,155						

20 Working Cash Requirement  
21 Working Cash Requirement per Company  
22 Adjustment to Cash Working Capital

\$	(47,072)
\$	75,089
\$	(122,161)

Notes and Source

AAWC Filing, Schedule B-6  
Col. D: RUCO recommending revenue lag days of 40.02. Company used 46.11 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days  
b: The Company accepted Staff's adjustment to remove chemical expense from its CWC calculation  
c: The Company accepted Staff's adjustment to remove bad debt expense from Customer Accounting Expense

Line 17, Col. C, Current Income Taxes:  
23 Per AAWC \$ 1,996,536  
24 RUCO adjustments to current income taxes \$ 90,292 Schedule C.1 (A), line 17  
25 Income Taxes for Revenue Increase \$ 2,044,361 Schedule A-1 (A), lines 12 & 13  
26 Total current income taxes for CWC calculation \$ 4,131,189

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Working Capital Required (H)	Reference
<b>OPERATING EXPENSES</b>									
1 P08 Labor	\$ 1,225,670	\$ (31,378)	\$ 1,194,292	39.65	12.00	27.65	0.0757	\$ 90,455	
2 P09 Purchased Water	\$ -	\$ -	\$ -	39.65	(59.03)	98.67	0.2703	\$ -	
3 P10 Fuel & Power	\$ 1,722,582	\$ -	\$ 1,722,582	39.65	22.09	17.56	0.0481	\$ 82,858	
4 P11 Chemicals	\$ 37,037	\$ -	\$ 37,037	39.65	15.09	-	-	\$ -	b
5 P12 Waste disposal	\$ -	\$ -	\$ -	39.65	-	39.65	0.1086	\$ -	
6 P13 Management Fees	\$ 1,509,322	\$ (202,994)	\$ 1,306,328	39.65	12.00	27.65	0.0757	\$ 98,941	a
7 P14 Group Insurance	\$ 354,396	\$ (2,650)	\$ 351,746	39.65	(13.70)	53.35	0.1462	\$ 51,412	
8 P15 Pensions	\$ 251,435	\$ (92,636)	\$ 158,799	39.65	(2.37)	42.01	0.1151	\$ 18,279	
9 P17 Insurance Other Than Group	\$ 93,255	\$ -	\$ 93,255	39.65	(83.68)	123.33	0.3379	\$ 31,510	
10 P18 Customer Accounting	\$ 235,348	\$ -	\$ 235,348	39.65	20.31	19.34	0.0530	\$ 12,467	c
11 P19 Rents	\$ 60,016	\$ -	\$ 60,016	39.65	32.82	6.82	0.0187	\$ 1,122	
12 P21 Miscellaneous	\$ 300,084	\$ -	\$ 300,084	39.65	25.96	13.69	0.0375	\$ 11,253	
13 P25 Maintenance Expense	\$ 652,601	\$ (445,000)	\$ 207,601	39.65	23.25	16.40	0.0449	\$ 9,325	
14 Other Operating Expenses	\$ 153,833	\$ (28,541)	\$ 125,292	39.65	30.00	9.65	0.0264	\$ 3,311	
15 P29 Property Taxes	\$ 156,074	\$ -	\$ 156,074	39.65	190.63	(150.99)	(0.4137)	\$ (64,561)	
16 P29 Taxes Other than Income	\$ 94,912	\$ -	\$ 94,912	39.65	13.35	26.30	0.0721	\$ 6,839	
17 P30 Income Tax	\$ 979,846	\$ 605,176	\$ 1,585,022	39.65	30.13	9.52	0.0261	\$ 41,319	
18 P56 Interest	\$ 845,582	\$ (44,967)	\$ 800,615	39.65	106.25	(66.61)	(0.1825)	\$ (146,096)	
19 Total	\$ 8,671,993	\$ (242,991)	\$ 8,429,002						
20 Working Cash Requirement								\$ 248,433	
21 Working Cash Requirement per Company								\$ 416,111	
22 Adjustment to Cash Working Capital								\$ (167,678)	

Notes and Source  
AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.73 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days  
b: The Company accepted Staff's adjustment to remove chemical expense from its CWC calculation  
c: The Company accepted Staff's adjustment to remove bad debt expense from Customer Accounting Expense

Line 17, Col. C, Current Income Taxes:	
23 Per AAWC	\$ 979,846
24 RUCO adjustments to current income taxes	\$ 341,658
25 Income Taxes for Revenue Increase	\$ 263,518
26 Total current income taxes for CWC calculation	\$ 1,585,022

Line No.	Description	Sun City Water (A)	Reference
1	Adjustment to Reduce Utility Plant in Service Related to Youngstown Plant	\$ (149,497)	A
2	Adjustment to Reduce Accumulated Depreciation Related to Youngstown Plant	\$ 22,008	A
3	Net Adjustment to Utility Plant in Service	<u>\$ (127,489)</u>	

Notes and Source

A: AAWC accepted Staff's adjustment related to the Youngtown Plant per the rebuttal testimony of Company witness Sandra L. Murrey

Arizona American Water Company  
Accumulated Deferred Income Taxes

Test Year Ended December 31, 2008

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Schedule B-9  
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New

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/ Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater (E)	Total (F)	Reference
1	Adjustment to Reduce Accumulated Deferred Income Taxes	\$ (18,580)	\$ (49,151)	\$ (27,084)	\$ (47,073)	\$ (32,077)	\$ (173,965)	A
2	Subtotal Water						\$ (67,731)	
3	Subtotal Wastewater						\$ (106,234)	
4	Total Adjustment						\$ (173,965)	

Notes and Source

A: AAWC accepted Staff's adjustments to ADIT per the rebuttal testimony of Company witness Linda J. Gutowski

Arizona American Water Company  
Customer Annualization Correction - Anthem Water

Attachment RCS-6  
Schedule C-1  
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Test Year Ended December 31, 2008

Line No.	Description	Anthem Water	Reference
		(A)	
1	Adjustment to Increase Annualized Revenue to Reflect Error Correction	\$ 9,458	A

Notes and Source

A: Company witness Linda J. Gutowski stated in her Rebuttal Testimony that the correction of the error in the customer annualization adjustment increases water revenue for the Anthem Water district

Arizona American Water Company  
Rate Case Expense

Attachment RCS-6  
Schedule C-2  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	\$ 57,546	\$ 63,081	\$ 120,627	A
2	RUCO Recommended Normalized Rate Case Expense	\$ 30,543	\$ 38,777	\$ 69,320	B
3	Adjustment to Rate Case Expense	\$ (27,003)	\$ (24,304)	\$ (51,307)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

	Anthem Water	Sun City Water
4 Estimated Rate Case Expense per Company	\$ 678,425	\$ 678,425
5 Normalized over three years	3	3
6 Estimated Normalized Rate Case Expense	\$ 226,142	\$ 226,142
7 2009 Group 4-Factor per Company	19.919%	25.289%
8 Allocated Rate Case Expense	\$ 45,046	\$ 57,190
9 Unamortized Balance of Prior Rate Case Expense	\$ 37,500	\$ 17,674
10 Normalized over three years	3	3
11 Annual Amortization of Unamortized Rate Case Expense	\$ 12,500	\$ 5,891
12 Pro Forma Rate Case Expense	\$ 57,546	\$ 63,081

B: RUCO recommended Rate Case Expense calculated as follows:

13 RUCO recommended Rate Case Expense	\$ 460,000	\$ 460,000
14 Normalized over three years	3	3
15 Normalized Rate Case Expense	\$ 153,333	\$ 153,333
16 2009 Group 4-Factor	19.919%	25.289%
17 Allocated Rate Case Expense	\$ 30,543	\$ 38,777

Arizona American Water Company  
Achievement Incentive Pay

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Schedule C-3  
Docket No. W-01303A-09-0343  
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Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Achievement Incentive Pay Recorded at 12/31/2008	\$ 3,496	\$ 4,224	\$ 7,720	A
2	Corporate Allocation	\$ 44,560	\$ 58,075	\$ 102,635	A&B
3	Total Achievement Incentive Pay	\$ 48,056	\$ 62,299	\$ 110,355	C
4	Disallowance Percentage	30%	30%		
5	Adjustment to Achievement Incentive Pay	\$ (14,417)	\$ (18,690)	\$ (33,107)	

Notes and Source

- A: Amounts above per Company workpaper "AJ-2008" for each district  
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2  
C: Testimony of RUCO witness Ralph Smith

Arizona American Water Company  
Stock-Based Compensation

Test Year Ended December 31, 2008

Attachment RCS-6  
Schedule C-4  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjustment to Remove Stock-Based Compensation - Management Fees	\$ (6,514)	\$ (8,490)	\$ (15,004)	A
2	Adjustment to Remove Stock-Based Compensation - Labor	\$ (9,735)	\$ (12,688)	\$ (22,423)	A
3	Total Adjustment to Remove Stock-Based Compensation	<u>\$ (16,249)</u>	<u>\$ (21,178)</u>	<u>\$ (37,427)</u>	

Notes and Source

A: Amounts below from AAWC's supplemental response to RUCO 6-3

Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
4 Comp - Stock Options - Account 501716	\$ 36,693		\$ 36,693
5 Comp - Restricted Stock - Account 501717	\$ 28,834	\$ 103,974	\$ 132,808
6 Comp - Restricted Stock Units - Account 701718	\$ 4,046		\$ 4,046
7 Total Test Year Stock-Based Compensation	<u>\$ 69,573</u>	<u>\$ 103,974</u>	<u>\$ 173,547</u>

Service Company Portion

8 Total Test Year Stock-Based Compensation - Service Company Portion	\$ 69,573	\$ 69,573
9 4 Factor Allocator	9.3634%	12.2033%
10 Total Allocated Test Year Stock-Based Compensation - Service Company Portion	<u>\$ 6,514</u>	<u>\$ 8,490</u>

Non-Affiliate Portion

11 Total Test Year Stock-Based Compensation - Non-Affiliate Portion	\$ 103,974	\$ 103,974
12 4 Factor Allocator	9.3634%	12.2033%
13 Total Allocated Test Year Stock-Based Compensation - Non-Affiliate Portion	<u>\$ 9,735</u>	<u>\$ 12,688</u>

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Pro Forma Pension Expense Per Filing	\$ 120,860	\$ 267,828	\$ 388,689	A
2	RUCO Recommended Pro Forma Pension Expense	\$ 81,657	\$ 175,192	\$ 256,849	B&C
3	Adjustment to Pension Expense	\$ (39,203)	\$ (92,636)	\$ (131,839)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
5 Recorded Pension Expense - 2007	\$ 903,222
6 Recorded Pension Expense - 2008	\$ 1,734,561
7 Subtotal	\$ 2,637,783
8 Normalized Over Two Years	2
9 Normalized Pension Expense	\$ 1,318,892

C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company workpaper "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

A	B	C	D	E	F	G	H	I	J	K	L
115	ARIZONA-AMERICAN WATER COMPANY										
116	SUMMARY OF PENSION PRO FORMA ADJUSTMENTS										
117	TEST YEAR ENDED DECEMBER 31, 2008										
118											
119											
120	Line	Business Unit	District	RUCO	Adjusted Test Year Pension Expense	Test Year Pension Expense	Difference	Per AAWC Adjusted Test Year Pension Expense	Per RUCO Pension Expense	RUCO Adjustment	
121	No.										
122	1	2381, 2383		\$	81,657.13	\$	162,414.00	\$	120,860.39	\$	81,657.13
123	2	Anthem Water									
124	3										
125	4										
126	5										
127	6										
128	7	Sun City Water		\$	175,192.00	\$	211,674.00	\$	267,828.16	\$	175,192.00
129	8										
130	9										
131	10										
132	11										
133	12	Anthem Wastewater		\$	70,701.52	\$	100,380.00	\$	106,761.98	\$	70,701.52
134	13										
135	14										
136	15										
137	16										
138	17	Agua Fria Wastewater		\$	56,670.94	\$	113,914.00	\$	81,710.83	\$	56,670.94
139	18	Northwest Valley Regional Treatment Facility @ 32%									
140	19	Total Agua Fria Wastewater		\$	21,784.85	\$	21,784.85	\$	33,671.49	\$	21,784.85
141	20										
142	21										
143	22										
144	23										
145	24	Sun City Wastewater		\$	46,093.81	\$	130,870.00	\$	74,380.77	\$	46,093.81
146	25										
147	26										
148	27										
149	28										
150	29	Sun City West Wastewater		\$	51,667.97	\$	110,737.00	\$	78,489.98	\$	51,667.97
151	30	Northwest Valley Regional Treatment Facility @ 68%									
152	31	Total Sun City West Wastewater		\$	46,292.81	\$	46,292.81	\$	70,480.92	\$	46,292.81
153	32										
154	33	Total All Districts		\$	97,960.78	\$	110,737.00	\$	146,970.85	\$	97,960.78
155	34										
156	35										
157	36										
158	37										
159	38										
160	39										
161	40										
162	41										
163	42										
164	43										
165	44										
166	45	Workpapers & Supporting Documents:									
167	46	09 Sun City West WW(Worpapers)\Sun City West WW AI 2008.xls									
168	47	Common Labor									
169	48										

Cases\AZ RUCO AZ American Water 2009\Testimony\42 2008 Labor\_Pension Adjustment.xlsx\Sheet1

Arizona American Water Company  
Test Year Ending December 31, 2008  
Pension Expense

Line No.	Average Recorded Pension, 2007-2008	\$ 1,318,892
1		
2		
3	Number of Active Participants	107
4		
5	Average Cost per Participant	\$ 12,326
6		
7	Average Cost Per Participant Per Hour (Ln. 5 + 2,080 hrs.)	\$ 5.93
8		
9	Compare per AWWC:	
10	Actual Pension Funding Expense for 2009 under ERISA	\$ 2,090,643 =-'2008 Pension'D89
11	Total reduction L1 - L10	\$ (771,751)
12		
13		
14		
15		
16		
17		
18		
19		
20	Defined Contribution Plan for new Hires beginning 1/1/06	
21	Beginning 1/1/06, the Company no longer offers a Pension Plan to new hires.	
22	Instead, new hires get the Defined Contribution Plan as a benefit.	
23	The Company will contribute 5.25% of Base Pay into a Defined Contribution Plan.	
24		
25	New Hires after 1/1/2006	Base Pay 5.25%
26		\$ 3,954,058.36 \$207,588
27		
28	Number of Active Participants	79
29		
30	Average Cost per Participant	\$2,627.70
31		
32	Average Cost Per Participant Per Hour (Ln.27 + 2,080 hrs.)	\$ 1.26
33		
34		
35		

AZ 2008 Labor\_Pension Adjustment Pension

Arizona American Water Company  
OPEB Expense

Attachment RCS-6  
Schedule C-6  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	\$ 78,238	\$ 78,238		A
2	4 Factor Allocation Factor	9.363%	12.203%		
3	Adjusted Test Year OPEB Expense Per Company	\$ 7,326	\$ 9,548	\$ 16,874	
4	RUCO Recommended Pro Forma OPEB Expense	\$ 5,293	\$ 6,898	\$ 12,191	
5	Adjustment to OPEB Expense	\$ (2,033)	\$ (2,650)	\$ (4,683)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
7 Recorded OPEB Cost - 2007	\$ 62,603
8 Recorded OPEB Cost - 2008	\$ 75,723
9	
Subtotal	\$ 138,326
10 Normalized Over Two Years	2
11 Normalized OPEB Cost	\$ 69,163
12 Capitalization Percentage	18.3%
13 Capitalized Portion of OPEB Cost	\$ (12,634)
14 Expensed Portion of OPEB Cost	\$ 56,529
	L11 + L13
15 4 Factor Allocation Factor	9.363%
16 Anthem Water Portion of OPEB Expense	\$ 5,293
	L14 x L15
17 4 Factor Allocation Factor	12.203%
18 Sun City Water Portion of OPEB Expense	\$ 6,898
	L14 x L17

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Membership Dues	\$ (1,774)	\$ (2,313)	\$ (2,341)	\$ (1,430)	\$ (1,210)	\$ (9,068)	A
2	Charitable Contributions	\$ (796)	\$ (1,038)	\$ (1,051)	\$ (642)	\$ (543)	\$ (4,070)	A
3	Community Relations	\$ (504)	\$ (657)	\$ (665)	\$ (406)	\$ (343)	\$ (2,575)	A
4	Advertising Expense	\$ (176)	\$ (229)	\$ (232)	\$ (142)	\$ (120)	\$ (899)	A
5	Total	\$ (3,250)	\$ (4,237)	\$ (4,289)	\$ (2,620)	\$ (2,216)	\$ (16,612)	
6	Subtotal Water						\$ (7,487)	
7	Subtotal Wastewater						\$ (9,125)	
8	Total Adjustment						\$ (16,612)	

Notes and Source

A: Amounts per AAWC's response to RUCO 2-43

	Amount
9 Membership Dues	\$ 18,951
10 Charitable Contributions	\$ 8,505
11 Community Relations	\$ 5,380
12 Advertising Expense	\$ 1,880
13 Total	\$ 34,716

see below

Breakout of Advertising Expenses being removed:

14 Public Works Financing - Corporate	\$ 594
15 Hanley Wood LLC - Marketing	\$ 318
16 Hanley Wood LLC - Marketing	\$ 636
17 Naylor LLC - Marketing	\$ 295
18 Identity Links, Inc. - Promotional	\$ 8
19 Langa Resource Group-REMIT - Promotional	\$ 19
20 M&N Services LLC - Promotional	\$ 10
21 Total	\$ 1,880

Arizona American Water Company  
 Tank Maintenance Expense - Sun City Water

Attachment RCS-6  
 Schedule C-8  
 Docket No. W-01303A-09-0343  
 Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Sun City Water	Reference
		(A)	
1	Adjusted Test Year Tank Maintenance Expense Per Filing	\$ 475,201	A
2	Adjustment to Remove Proposed Accrual for Deferred Tank Maintenance	\$ (445,000)	
3	RUCO Recommended Tank Maintenance Expense	<u>\$ 30,201</u>	

Notes and Source

A: Per Sun City Water, Schedule C-2, page 29, Adjustment No. SLH-11 from Arizona-American filing

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater (E)	Total (F)	Reference
1	Reverse AAWC Adjustment to Annualize Management Fees - Other Expenses	\$ (15,954)	\$ (20,793)	\$ (21,050)	\$ (12,855)	\$ (10,878)	\$ (81,530)	A
2	Subtotal Water						\$ (36,747)	
3	Subtotal Wastewater						\$ (44,783)	
4	Total Adjustment						\$ (81,530)	

Notes and Source

A: Per Schedule C-2, Adjustment No. MHK-4 from AAWC filing

Arizona American Water Company  
Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits

Attachment RCS-6  
Schedule C-10  
Docket No. W-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634%	(A)	Sun City Water 12.2033%	(B)	Anthem/ Agua Fria Wastewater 12.3543%	(C)	Sun City Wastewater 7.5448%	(D)	Sun City West Wastewater 6.3842%	(E)	Total 47.8500%	(F)	Reference
Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits														
1	Per AWWC	\$ 71,343	\$ 92,981	\$ 94,132	\$ 57,487	\$ 48,643	\$ 364,587							A
2	Per RUCO	\$ 17,548	\$ 22,871	\$ 23,154	\$ 14,140	\$ 11,965	\$ 89,678							B
3	Adjustment	\$ (53,795)	\$ (70,111)	\$ (70,978)	\$ (43,347)	\$ (36,678)	\$ (274,909)							
4	Subtotal Water											\$ (123,905)		
5	Subtotal Wastewater											\$ (151,004)		
6	Total Adjustment											\$ (274,909)		

Notes and Source

- A Per Schedule C-2, Adjustment No. MHK-3 from AAWC filing  
B Allows 4 percent March 2009 pay increase and removes AAWC's requested 22% post test year increase in employee benefits

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634%	Sun City Water 12.2033%	Anthem/ Agua Fria Wastewater 12.3543%	Sun City Wastewater 7.5448%	Sun City West Wastewater 6.3842%	Total 47.8500%	Reference
		(A)	(B)	(C)	(D)	(E)	(F)	
<b>Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits</b>								
1	Per AAWC	\$ 50,261	\$ 65,506	\$ 66,317	\$ 40,500	\$ 34,269	\$ 256,853	A
2	Per RUCO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	B
3	Adjustment	\$ (50,261)	\$ (65,506)	\$ (66,317)	\$ (40,500)	\$ (34,269)	\$ (256,853)	
4	Subtotal Water						\$ (115,767)	
5	Subtotal Wastewater						\$ (141,086)	
6	Total Adjustment						\$ (256,853)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
501711	Incentive Plan-Off-Annual	\$ 497,594	\$ 8,155	\$ 505,749
501712	Incentive Plan-Off-Long Term	\$ 30,538	\$ 500	\$ 31,038
	Totals	\$ 528,132	\$ 8,655	\$ 536,787

B Reflects removal of all affiliate incentive compensation expense to AWWC in the test year

Arizona American Water Company  
Management Fees - Normalize Affiliate Pension Expense

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Aqua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Per AWWC	\$ 46,779	\$ 60,967	\$ 61,722	\$ 37,694	\$ 31,895	\$ 239,057	A
2	Per RUCO	\$ 45,946	\$ 59,881	\$ 60,623	\$ 37,022	\$ 31,327	\$ 234,800	B
3	Adjustment	\$ (833)	\$ (1,086)	\$ (1,099)	\$ (671)	\$ (566)	\$ (4,257)	
4	Subtotal Water						\$ (1,919)	
5	Subtotal Wastewater						\$ (2,338)	
6	Total Adjustment						\$ (4,257)	

Normalize Affiliate Pension Expense in Management Fees:

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
506100	Pension	\$ 491,541	\$ 8,056	\$ 499,596

Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):

506100	Pension	\$ 491,541
--------	---------	------------

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated pension expense

Year	Amount	Reference
2007	\$ 489,857	RUCO 4-5
2008	\$ 491,541	RUCO 4-5
Average	\$ 490,699	

Compare amounts from Company's response to RUCO 2-59a, Account 506100, Service Company Pension Charges:

Year	Capitalized	O&M	Total
2005	\$ 23,326	\$ 78,757	\$ 102,083
2006	\$ 100,747	\$ 1,624,692	\$ 1,725,439
2007	\$ 69,871	\$ 489,857	\$ 559,728
2008	\$ 46,979	\$ 495,909	\$ 542,888
Average 2006-2008		\$ 870,153	

Compare amounts from Company's response to RUCO 2-61, Account 506100, Pension:

Year	Amount
2005	\$ 96,878
2006	\$ 1,624,689 C
2007	\$ 489,857
2008	\$ 495,909
Average 2006-2008	\$ 870,152

C December 2005 had an unusually large charge due to the Company transition from ERISA to FAS 87 per RUCO 7-1:

2006 YTD November	\$ 320,510
2006 YTD November - annualized	\$ 349,647

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.9500% (F)	Reference
<b>Normalize Affiliate OPEB Expense in Management Fees:</b>								
1	Per AWWC	\$ 13,044	\$ 17,000	\$ 17,211	\$ 10,511	\$ 8,894	\$ 66,659	A
2	Per RUCO	\$ 11,634	\$ 15,163	\$ 15,350	\$ 9,374	\$ 7,932	\$ 59,454	B
3	Adjustment	\$ (1,410)	\$ (1,838)	\$ (1,960)	\$ (1,136)	\$ (961)	\$ (7,206)	
4	Subtotal Water						\$ (3,248)	
5	Subtotal Wastewater						\$ (3,958)	
6	Total Adjustment						\$ (7,206)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
505100	PBOP	\$ 137,062	\$ 2,246	\$ 137,062

Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):  
2008

505100	PBOP	\$ 137,062
--------	------	------------

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated OPEB expense

Year	Amount	Reference
2007	\$ 111,438	RUCO 4-5
2008	\$ 137,062	RUCO 4-5
Average	\$ 124,250	

Compare amounts from Company's response to RUCO 2-59a, Account 505100, Service Company OPEB Charges:

Year	Capitalized	O&M	Total
2005	\$ 29,024	\$ 116,116	\$ 145,140
2006	\$ 37,871	\$ 136,162	\$ 174,033
2007	\$ 15,890	\$ 111,438	\$ 127,328
2008	\$ 13,100	\$ 138,280	\$ 151,380
Average 2006-2008		\$ 128,627	\$ 128,627

Compare amounts from Company's response to RUCO 2-61, Account 505100, PBOP:

Year	Amount
2005	\$ 97,995
2006	\$ 136,162
2007	\$ 111,438
2008	\$ 138,280
Average 2006-2008	\$ 128,627

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Remove Affiliate Charges for Business Development							A
2	Per AWWC	\$ 9,438	\$ 12,301	\$ 12,453	\$ 7,605	\$ 6,435	\$ 48,232	B
3	Per RUCO							
4	Adjustment	\$ (9,438)	\$ (12,301)	\$ (12,453)	\$ (7,605)	\$ (6,435)	\$ (48,232)	
5	Subtotal Water						\$ (21,739)	
6	Subtotal Wastewater						\$ (26,493)	
	Total Adjustment						\$ (48,232)	

Notes and Source

A Derived from Company's response to RUCO 4-3  
Total Business Development Expenses \$ 100,799

Compare: AAWC's response to RUCO 2-43(g):  
"Business development costs in the test year were \$101,395."

B Reflects removal of affiliate charges for business development

Arizona American Water Company  
Interest Synchronization

Attachment RCS-6  
Schedule C-15  
Docket No. W-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008  
(Thousands of Dollars)

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjusted Rate Base, per RUCO	\$ 57,259,174	\$ 26,215,284	\$ 83,474,458	Schedules B (A) and B (SC)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%		Per RUCO - Schedule D
3	Deduction for Tax Purposes	\$ 1,748,695	\$ 800,615	\$ 2,549,310	L1 x L2
4	Interest Deduction per Company	\$ 1,722,960	\$ 845,582	\$ 2,568,542	Note A
5	Difference (Decreased) Increased Interest Deduction	\$ 25,735	\$ (44,967)	\$ (19,232)	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	\$ (9,934)	\$ 17,357	\$ 7,423	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Arizona American Water Company  
 Depreciation Expense - Well 5.1 - Sun City Water

Test Year Ended December 31, 2008

Attachment RCS-6  
 Schedule C-16  
 Docket No. W-01303A-09-0343  
 Page 1 of 1

Line No.	Description	Sun City		Reference
		Water	(A)	
1	Remove Depreciation Expense Related to Post-Test Year Plant - Well 5.1	\$ (48,653)		A
2	Reverse Company Adjustment to Depreciation Expense Related to Old Well 5.1	\$ 11,692		A
3	Net Adjustment to Depreciation Expense	<u>\$ (36,961)</u>		

Notes and Source

A: Per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

Arizona American Water Company  
 Depreciation Expense - Anthem Water Reclassified Accounts

Test Year Ended December 31, 2008

Attachment RCS-6  
 Schedule C-18  
 Docket No. W-01303A-09-0343  
 Page 1 of 1  
 New

Line No.	Account	Description	Amount (A)	Depreciation Rate* (B)	Depreciation Expense (C)	Reference
1	304300	Structures and Improvements - Water Treatment	\$ (22,289)	1.67%	\$ (372)	A
2	320100	Water Treatment Equipment - Non Media	\$ 22,289	7.06%	\$ 1,574	A
3		Net Adjustment to Depreciation Expense			<u>\$ 1,202</u>	

Notes and Source

A: These adjustments to depreciation expense reflect the impact of Staff's adjustment to reclassify the amount in Column A between the referenced accounts as discussed in the Rebuttal Testimony of Company witness Sandra L. Murrey

\* Depreciation rates from revised Company Adjustment SLM-1

**Arizona American Water Company**  
**Docket No. SW-01303A-09-0343**  
**Attachment RCS-7**  
**Accompanying the Surrebuttal Testimony of Ralph Smith**  
**RUCO Accounting Schedules - Wastewater Districts**

Number	Description	No. of Pages	Page No.	Note	Revised/ New
<b>Revenue Requirement Summary Schedules - Total Wastewater</b>					
A	Calculation of Revenue Deficiency (Sufficiency)	1	2		Revised
A-1	Gross Revenue Conversion Factor	1	3		Revised
B	Adjusted Rate Base	1	4		Revised
B.1	Summary of Rate Base Adjustments	1	5		Revised
C	Adjusted Net Operating Income	1	6		Revised
C.1	Summary of Net Operating Income Adjustments	3	7-9		Revised
D	Capital Structure and Cost Rates	1	10		
<b>Revenue Requirement Summary Schedules - Anthem/Agua Fria Wastewater</b>					
A (AAF)	Calculation of Revenue Deficiency (Sufficiency)	1	11		Revised
A-1(AAF)	Gross Revenue Conversion Factor	1	12		Revised
B(AAF)	Adjusted Rate Base	1	13		Revised
B.1(AAF)	Summary of Rate Base Adjustments	1	14		Revised
C(AAF)	Adjusted Net Operating Income	1	15		Revised
C.1(AAF)	Summary of Net Operating Income Adjustments	3	16-18		Revised
<b>Revenue Requirement Summary Schedules - Sun City Wastewater</b>					
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	19		Revised
A-1(SC)	Gross Revenue Conversion Factor	1	20		Revised
B (SC)	Adjusted Rate Base	1	21		Revised
B.1 (SC)	Summary of Rate Base Adjustments	1	22		Revised
C (SC)	Adjusted Net Operating Income	1	23		Revised
C.1 (SC)	Summary of Net Operating Income Adjustments	2	24-25		Revised
<b>Revenue Requirement Summary Schedules - Sun City West Wastewater</b>					
A(SCW)	Calculation of Revenue Deficiency (Sufficiency)	1	26		Revised
A-1(SCW)	Gross Revenue Conversion Factor	1	27		Revised
B(SCW)	Adjusted Rate Base	1	28		Revised
B.1(SCW)	Summary of Rate Base Adjustments	1	29		Revised
C(SCW)	Adjusted Net Operating Income	1	30		Revised
C.1(SCW)	Summary of Net Operating Income Adjustments	3	31-33		Revised
<b>Rate Base Adjustments</b>					
B-2	Plant Retirements - Anthem/Agua Fria Wastewater	1	34		
B-3	Contributions In Aid of Construction			A	
B-4	Cash Working Capital	4	35-38		Revised
B-6	Verrado Wastewater Plant - Anthem/Agua Fria Wastewater	1	39		New
B-7	Comprehensive Planning Study	1	40		New
B-8	North West Valley Treatment Plant	1	41		New
B-9	Accumulated Deferred Income Taxes			A	New
<b>Net Operating Income Adjustments</b>					
C-2	Rate Case Expense	1	42		
C-3	Achievement Incentive Pay	1	43		
C-4	Stock-Based Compensation	1	44		Revised
C-5	Pension Expense	1	45		
C-5.1	Calculations for pension expense adjustment			A	
C-6	OPEB Expense	1	46		
C-7	Dues, Donations & Miscellaneous Expenses			A	
C-9	Management Fees - Other Expenses			A	
	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate				
C-10	Employee Benefits			A	
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense			A	
C-12	Management Fees - Normalize Affiliate Pension Expense			A	
C-13	Management Fees - Normalize Affiliate OPEB Expense			A	
C-14	Management Fees - Remove Business Development Expense			A	
C-15	Interest Synchronization	1	47		Revised
C-17	Depreciation Expense - Anthem/Agua Fria Wastewater	1	48		
C-19	Depreciation Expense - Anthem/Agua Fria Wastewater Reclassified Accounts	1	49		New
Total Pages (including Contents page)		49			

A: See Attachment RCS-6

Arizona American Water Company - Total of Wastewater Districts  
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule A  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	\$ 80,321,091	\$ 77,958,985	\$ (2,362,106)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 6,851,421	\$ 5,280,942	\$ (1,570,479)
4	Adjusted net operating income	C	\$ 375,065	\$ 813,034	\$ 437,969
5	Net operating income deficiency		\$ 6,476,356	\$ 4,467,908	\$ (2,008,448)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 10,725,216	\$ 7,399,124	\$ (3,326,092)
<b>Percentage Increase Over Current Rates</b>					
8	Revenue from Sales to Retail Customers	Sch C, L.1	\$ 20,228,926	\$ 20,228,926	
9	Percentage Increase	L.7 / L.8	53.02%	36.58%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem/Agua Fria, Sun City and Sun City West)

<b>Calculation of RUCO recommended percentage increase to AAWC's base rates</b>			<b>RUCO Proposed</b>
AAWC's adjusted water revenues per Schedule C			\$ 20,228,926
RUCO recommended rate increase (line 7 above)			\$ 7,399,124
Total revenues after reflecting RUCO recommended increase			\$ 27,628,050
Percentage change in revenues			36.58%
<b>Calculation of AAWC's proposed percentage increase to base rates</b>			<b>AAWC Proposed</b>
AAWC's adjusted water revenues per Schedule C			\$ 20,228,926
AAWC proposed rate increase (line 7 above)			\$ 10,725,216
Total revenues after reflecting AAWC proposed increase			\$ 30,954,142
Percentage change in revenues			53.02%

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule A-1  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6561</b>	<b>1.6561</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11 Net Income	\$ 4,467,916	60.38%
12 Federal Income Taxes	\$ 2,340,408	31.63%
13 State Income Taxes	\$ 515,571	6.97%
14 Property Taxes	\$ 52,269	0.71%
15 Uncollectibles	\$ 22,960	0.31%
16 Total Revenue Increase	\$ 7,399,124	100.00%
17 Total Revenue Increase (From Schedule A)	\$ 7,399,124	

Arizona American Water Company - Total of Wastewater Districts  
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 191,762,219	\$ (1,891,273)	\$ 189,870,946
2	Accumulated Depreciation	\$ (52,782,874)	\$ 52,636	\$ (52,730,238)
3	<b>Net Utility Plant in Service</b>	<u>\$ 138,979,344</u>	<u>\$ (1,838,637)</u>	<u>\$ 137,140,707</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (51,079,109)	\$ -	\$ (51,079,109)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,846,225)	\$ (69,233)	\$ (13,915,458)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (947,395)	\$ -	\$ (947,395)
10	Deferred Income Taxes and Credits	\$ 4,117,012	\$ (106,234)	\$ 4,010,778
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<u>\$ (61,755,717)</u>	<u>\$ (175,467)</u>	<u>\$ (61,931,184)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 2,241,558	\$ -	\$ 2,241,558
16	Allowance for Working Capital	\$ 855,905	\$ (348,000)	\$ 507,905
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 3,097,462</u>	<u>\$ (348,000)</u>	<u>\$ 2,749,462</u>
19	<b>Total Rate Base</b>	<u>\$ 80,321,091</u>	<u>\$ (2,362,104)</u>	<u>\$ 77,958,985</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Total of Wastewater Districts  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B.1  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	RUCO Adjustments		Retirements - Anthem/Agua Fria Wastewater B-2		Contributions in Cash Working Capital B-3		Verrado Wastewater Plant B-4		Comprehensive Planning Study B-6		Allocation of NW/TP B-7		Accumulated Deferred Income Taxes B-8	
1	Gross Utility Plant in Service	\$	(1,891,273)	\$	(52,636)										
2	Accumulated Depreciation	\$	52,636	\$	52,636										
3	Net Utility Plant in Service	\$	(1,838,637)	\$	-	\$	-	\$	-	\$	(1,838,637)	\$	-	\$	-
Less:															
4	Advances in Aid of Construction	\$	-												
5	Contributions in Aid of Construction (net of amortization)	\$	(69,233)			\$	(69,233)								
6	Imputed Regulatory Advances	\$	-												
7	Imputed Regulatory Contributions	\$	-												
10	Deferred Income Taxes and Credits	\$	(106,234)											\$	(106,234)
11	Investment Tax Credits and Other Deferred Credits	\$	-												
12	Total Reductions	\$	(175,467)	\$	-	\$	(69,233)	\$	-	\$	-	\$	-	\$	(106,234)
Plus:															
13	Unamortized Finance Charges	\$	-												
14	Deferred Tax Assets	\$	-												
15	Deferred Debits	\$	-												
16	Allowance for Working Capital	\$	(348,000)					\$	(348,000)						
17	Utility Plant Acquisition Adjustment	\$	-												
18	Total Additions	\$	(348,000)	\$	-	\$	-	\$	(348,000)	\$	-	\$	-	\$	-
18	Total Rate Base	\$	(2,362,104)	\$	-	\$	(69,233)	\$	(348,000)	\$	(1,838,637)	\$	-	\$	(106,234)

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Total of Wastewater Districts  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule C  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 20,228,926	\$ -	\$ 20,228,926
2	Other Revenues	\$ 10,288	\$ -	\$ 10,288
3	<b>Total Revenues</b>	<u>\$ 20,239,214</u>	<u>\$ -</u>	<u>\$ 20,239,214</u>
<b>Operating Expenses</b>				
4	Labor	\$ 2,556,566	\$ (70,180)	\$ 2,486,386
5	Purchased Water	\$ 10,524	\$ -	\$ 10,524
6	Fuel & Power	\$ 679,980	\$ -	\$ 679,980
7	Chemicals	\$ 709,941	\$ -	\$ 709,941
8	Waste Disposal	\$ 3,602,842	\$ -	\$ 3,602,842
9	Management Fees	\$ 3,250,764	\$ (437,207)	\$ 2,813,557
10	Group Insurance	\$ 804,856	\$ (5,706)	\$ 799,150
11	Pensions	\$ 447,520	\$ (148,500)	\$ 299,020
12	Regulatory Expense	\$ 174,416	\$ (71,206)	\$ 103,210
13	Insurance Other Than Group	\$ 201,008	\$ -	\$ 201,008
14	Customer Accounting	\$ 511,824	\$ -	\$ 511,824
15	Rents	\$ 163,430	\$ -	\$ 163,430
16	General Office Expense	\$ 180,591	\$ -	\$ 180,591
17	Miscellaneous	\$ 882,166	\$ -	\$ 882,166
18	Maintenance Expense	\$ 446,357	\$ -	\$ 446,357
19	Depreciation & Amortization	\$ 5,749,606	\$ 1,414	\$ 5,751,020
20	General Taxes - Property Taxes	\$ 589,432	\$ -	\$ 589,432
21	General Taxes - Other	\$ 181,327	\$ -	\$ 181,327
22	Income Taxes	\$ (1,279,000)	\$ 293,419	\$ (985,581)
23	<b>Total Operating Expenses</b>	<u>\$ 19,864,150</u>	<u>\$ (437,966)</u>	<u>\$ 19,426,184</u>
24	<b>Utility Operating Income</b>	<u>\$ 375,064</u>	<u>\$ 437,966</u>	<u>\$ 813,030</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (2,409,633)	\$ -	\$ (2,409,633)
27	Other Expense	\$ (39,518)	\$ -	\$ (39,518)
28	Gain/Loss Sale of Fixed Assets	\$ 1	\$ -	\$ 1
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (2,449,150)</u>	<u>\$ -</u>	<u>\$ (2,449,150)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (2,074,086)</u>	<u>\$ 437,966</u>	<u>\$ (1,636,120)</u>
31	Rate Base	<u>\$ 80,321,091</u>	<u>\$ (2,362,104)</u>	<u>\$ 77,958,987</u>
32	Earned Rate of Return	<u>0.47%</u>		<u>1.04%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Wastewater Districts  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Attachment RCS-7  
Schedule C.1  
Docket No. SW-01303A-09-0343  
Page 1 of 3  
Revised

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
	<b>Revenues</b>				Revised		
1	Sewer Revenues	\$ -					
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<b>Operating Expenses</b>						
4	Labor	\$ (70,180)		\$ (42,852)	\$ (27,328)		
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (437,207)			\$ (18,286)		
10	Group Insurance	\$ (5,706)				\$ (5,706)	
11	Pensions	\$ (148,500)					
12	Regulatory Expense	\$ (71,206)	\$ (71,206)				
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ -					
18	Maintenance Expense	\$ -					
19	Depreciation & Amortization	\$ 1,414					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	PRE-TAX OPERATING EXPENSES	\$ (731,385)	\$ (71,206)	\$ (42,852)	\$ (45,614)	\$ (148,500)	\$ (5,706)
16	PRE-TAX OPERATING INCOME	\$ 731,385	\$ 71,206	\$ 42,852	\$ 45,614	\$ 148,500	\$ 5,706
17	Income Taxes	\$ 293,419	\$ 27,486	\$ 16,541	\$ 17,607	\$ 57,321	\$ 2,203
18	TOTAL OPERATING EXPENSES	\$ (437,966)	\$ (43,720)	\$ (26,311)	\$ (28,007)	\$ (91,179)	\$ (3,503)
19	OPERATING INCOME	\$ 437,966	\$ 43,720	\$ 26,311	\$ 28,007	\$ 91,179	\$ 3,503

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Attachment RCS-7  
Docket No. SW-01303A-09-0343  
Page 8 of 49

Notes and Source  
Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Total of Wastewater District  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Attachment RCS-7  
Schedule C.1  
Docket No. SW-01303A-09-0343  
Page 3 of 3  
Revised

Line No.	Description	Management Fees - Normalize Affiliate OPEB Expense C-13	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15 Revised	Depreciation Expense Related to Plant Retirements C-17	Depreciation Expense - Anthem/Agua Fria Wastewater Reclassified Accounts C-19 New
1	<b>Revenues</b>					
2	Sewer Revenues					
3	Other Revenues					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
4	<b>Operating Expenses</b>					
5	Labor					
6	Purchased Water					
7	Fuel & Power					
8	Chemicals					
9	Waste Disposal					
10	Management Fees	\$ (3,958)	\$ (26,493)			
11	Group Insurance					
12	Pensions					
13	Regulatory Expense					
14	Insurance Other Than Group					
15	Customer Accounting					
16	Rents					
17	General Office Expense					
18	Miscellaneous					
19	Maintenance Expense					
20	Depreciation & Amortization					
21	General Taxes - Property Taxes					
15	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$ (3,958)	\$ (26,493)	\$ -	\$ (2,853)	\$ 13,392
16	PRE-TAX OPERATING INCOME	\$ 3,958	\$ 26,493	\$ -	\$ 2,853	\$ (13,392)
17	Income Taxes	\$ 1,528	\$ 10,226	\$ 11,104	\$ 1,101	\$ (5,169)
18	TOTAL OPERATING EXPENSES	\$ (2,430)	\$ (16,267)	\$ 11,104	\$ (1,752)	\$ 8,223
19	OPERATING INCOME	\$ 2,430	\$ 16,267	\$ (11,104)	\$ 1,752	\$ (8,223)

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Wastewater Districts  
Capital Structure and Cost Rates

Attachment RCS-7  
Schedule D  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Percent (B)	Cost Rate (C)	Weighted Cost (D)
<b>Per Company</b>					
1	Long-Term Debt	\$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	\$ 154,949,595	45.15%	12.25%	5.53%
4	Total	\$ 343,157,735	100.00%		8.53%

<b>Per RUCO</b>					
5	Long-Term Debt	\$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	\$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	\$ 154,949,595	39.15%	9.50%	3.72%
8	Total	\$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

Notes and Source

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)

Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-7  
Schedule A (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (AAF)	\$ 47,735,732	\$ 45,264,942	\$ (2,470,790)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 4,071,858	\$ 3,066,247	\$ (1,005,611)
4	Adjusted net operating income	C (AAF)	\$ (191,785)	\$ (4,298)	\$ 187,487
5	Net operating income deficiency		\$ 4,263,643	\$ 3,070,545	\$ (1,193,098)
6	Gross revenue conversion factor	A-1 (AAF)	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		\$ 7,060,837	\$ 5,085,007	\$ (1,975,830)

Percentage Increase Over Current Rates

8	Revenue from Sales to Retail Customers	Sch C (AAF), L.1	\$ 8,634,567	\$ 8,634,567	
9	Percentage Increase	L.7 / L.8	81.77%	58.89%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C (AAF)	RUCO Proposed
RUCO recommended rate increase (line 7 above)	\$ 8,634,567
Total revenues after reflecting RUCO recommended increase	\$ 5,085,007
	\$ 13,719,574

Percentage change in revenues

58.89%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C (AAF)	AAWC Proposed
AAWC proposed rate increase (line 7 above)	\$ 8,634,567
Total revenues after reflecting AAWC proposed increase	\$ 7,060,837
	\$ 15,695,404

Percentage change in revenues

81.77%

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule A-1 (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6561</b>	<b>1.6561</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11 Net Income	\$ 3,070,551	60.38%
12 Federal Income Taxes	\$ 1,608,432	31.63%
13 State Income Taxes	\$ 354,323	6.97%
14 Property Taxes	\$ 35,922	0.71%
15 Uncollectibles	\$ 15,779	0.31%
16 Total Revenue Increase	\$ 5,085,007	100.00%
17 Total Revenue Increase (From Schedule A (AAF))	\$ 5,085,007	

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Adjusted Rate Base

Attachment RCS-7  
Schedule B (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 131,361,186	\$ (2,931,096)	\$ 128,430,090
2	Accumulated Depreciation	\$ (22,837,366)	\$ 682,880	\$ (22,154,486)
3	<b>Net Utility Plant in Service</b>	<u>\$ 108,523,819</u>	<u>\$ (2,248,216)</u>	<u>\$ 106,275,603</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (48,273,364)	\$ -	\$ (48,273,364)
5	Contributions in Aid of Construction (net of amortization)	\$ (13,829,151)	\$ (65,490)	\$ (13,894,641)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (143,475)	\$ -	\$ (143,475)
10	Deferred Income Taxes and Credits	\$ 1,049,621	\$ (27,084)	\$ 1,022,537
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<u>\$ (61,196,369)</u>	<u>\$ (92,574)</u>	<u>\$ (61,288,943)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 75,382	\$ -	\$ 75,382
16	Allowance for Working Capital	\$ 332,901	\$ (130,000)	\$ 202,901
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 408,282</u>	<u>\$ (130,000)</u>	<u>\$ 278,282</u>
19	<b>Total Rate Base</b>	<u>\$ 47,735,732</u>	<u>\$ (2,470,790)</u>	<u>\$ 45,264,942</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B.1 (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	RUCO Adjustments	Plant Retirements - Anthem/Agua Fria Wastewater B-2	Contributions in Aid of Construction B-3	Cash Working Capital B-4 Revised	Verrado Wastewater Plant B-6 New	Allocation of NW/TP B-8 New	Accumulated Deferred Income Taxes B-9 New
1	Gross Utility Plant in Service	\$ (2,931,096)	\$ (52,636)			\$ (1,838,637)	\$ (1,039,823)	
2	Accumulated Depreciation	\$ 682,880	\$ 52,636				\$ 630,244	
3	Net Utility Plant in Service	\$ (2,248,216)	\$ -	\$ -	\$ -	\$ (1,838,637)	\$ (409,579)	\$ -
Less:								
4	Advances in Aid of Construction	\$ -						
5	Contributions in Aid of Construction (net of amortization)	\$ (65,490)		\$ (65,490)				
6	Imputed Regulatory Advances	\$ -						
7	Imputed Regulatory Contributions	\$ -						
10	Deferred Income Taxes and Credits	\$ (27,084)						\$ (27,084)
11	Investment Tax Credits and Other Deferred Credits	\$ -						
12	Total Reductions	\$ (92,574)	\$ -	\$ (65,490)	\$ -	\$ -	\$ -	\$ (27,084)
Plus:								
13	Unamortized Finance Charges	\$ -						
14	Deferred Tax Assets	\$ -						
15	Deferred Debits	\$ -						
16	Allowance for Working Capital	\$ (130,000)			\$ (130,000)			
17	Utility Plant Acquisition Adjustment	\$ -						
18	Total Additions	\$ (130,000)	\$ -	\$ -	\$ (130,000)	\$ -	\$ -	\$ -
18	Total Rate Base	\$ (2,470,790)	\$ -	\$ (65,490)	\$ (130,000)	\$ (1,838,637)	\$ (409,579)	\$ (27,084)

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule C (AAF)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 8,634,567	\$ -	\$ 8,634,567
2	Other Revenues	\$ 2,556	\$ -	\$ 2,556
3	<b>Total Revenues</b>	<u>\$ 8,637,123</u>	<u>\$ -</u>	<u>\$ 8,637,123</u>
<b>Operating Expenses</b>				
4	Labor	\$ 1,335,278	\$ (30,484)	\$ 1,304,794
5	Purchased Water	\$ 3,368	\$ -	\$ 3,368
6	Fuel & Power	\$ 278,664	\$ -	\$ 278,664
7	Chemicals	\$ 303,374	\$ -	\$ 303,374
8	Waste Disposal	\$ 199,095	\$ -	\$ 199,095
9	Management Fees	\$ 1,528,005	\$ (205,507)	\$ 1,322,498
10	Group Insurance	\$ 396,599	\$ (2,682)	\$ 393,917
11	Pensions	\$ 221,640	\$ (72,483)	\$ 149,157
12	Regulatory Expense	\$ 80,939	\$ (31,679)	\$ 49,260
13	Insurance Other Than Group	\$ 94,566	\$ -	\$ 94,566
14	Customer Accounting	\$ 242,170	\$ -	\$ 242,170
15	Rents	\$ 84,483	\$ -	\$ 84,483
16	General Office Expense	\$ 85,697	\$ -	\$ 85,697
17	Miscellaneous	\$ 534,489	\$ (4,289)	\$ 530,200
18	Maintenance Expense	\$ 246,204	\$ -	\$ 246,204
19	Depreciation & Amortization	\$ 3,830,808	\$ 10,539	\$ 3,841,347
20	General Taxes - Property Taxes	\$ 296,804	\$ -	\$ 296,804
21	General Taxes - Other	\$ 87,538	\$ -	\$ 87,538
22	Income Taxes	\$ (1,020,813)	\$ 149,098	\$ (871,715)
23	<b>Total Operating Expenses</b>	<u>\$ 8,828,908</u>	<u>\$ (187,487)</u>	<u>\$ 8,641,421</u>
24	<b>Utility Operating Income</b>	<u>\$ (191,785)</u>	<u>\$ 187,487</u>	<u>\$ (4,298)</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (1,432,072)		\$ (1,432,072)
27	Other Expense	\$ (18,575)		\$ (18,575)
28	Gain/Loss Sale of Fixed Assets	\$ (4)		\$ (4)
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (1,450,651)</u>	<u>\$ -</u>	<u>\$ (1,450,651)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ (1,642,436)</u>	<u>\$ 187,487</u>	<u>\$ (1,454,949)</u>
31	Rate Base	<u>\$ 47,735,732</u>	<u>\$ (2,470,790)</u>	<u>\$ 45,264,942</u>
32	Earned Rate of Return	<u>-0.40%</u>		<u>-0.01%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1

Col.B: Schedule C.1

Col.C: Col.A + Col.B

Arizona American Water Company - Anthem/Agua Fria Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>							
1	Sewer Revenues	\$ -					
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor	\$ (30,484)		\$ (17,639)	\$ (12,845)		
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (205,507)			\$ (8,595)		
10	Group Insurance	\$ (2,682)					
11	Pensions	\$ (72,483)				\$ (72,483)	\$ (2,682)
12	Regulatory Expense	\$ (31,679)	\$ (31,679)				
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (4,289)					
18	Maintenance Expense	\$ -					
19	Depreciation & Amortization	\$ 10,539					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	PRE-TAX OPERATING EXPENSES	\$ (336,585)	\$ (31,679)	\$ (17,639)	\$ (21,440)	\$ (72,483)	\$ (2,682)
16	PRE-TAX OPERATING INCOME	\$ 336,585	\$ 31,679	\$ 17,639	\$ 21,440	\$ 72,483	\$ 2,682
17	Income Taxes	\$ 149,098	\$ 12,228	\$ 6,809	\$ 8,276	\$ 27,978	\$ 1,035
18	TOTAL OPERATING EXPENSES	\$ (187,487)	\$ (19,451)	\$ (10,830)	\$ (13,164)	\$ (44,505)	\$ (1,647)
19	OPERATING INCOME	\$ 187,487	\$ 19,451	\$ 10,830	\$ 13,164	\$ 44,505	\$ 1,647

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

38.60%

Test Year Ended March 31, 2008

Line No.	Description	C-7	C-9	C-9A	C-10	C-11	C-12
		Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Post-Test Year Increase	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense
				New			
	<b>Revenues</b>						
1	Sewer Revenues						
2	Other Revenues						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Operating Expenses						
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees					
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					
20	General Taxes - Property Taxes					
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$	(4,289)	\$	(23,154)	\$ (70,978) \$ (66,317) \$ (1,099)
16	PRE-TAX OPERATING INCOME	\$	4,289	\$	23,154	\$ 70,978 \$ 66,317 \$ 1,099
17	Income Taxes	\$	1,656	\$	8,125	\$ 27,398 \$ 25,598 \$ 424
18	TOTAL OPERATING EXPENSES	\$	(2,633)	\$	(12,925)	\$ (43,580) \$ (40,719) \$ (675)
19	OPERATING INCOME	\$	2,633	\$	12,925	\$ 43,580 \$ 40,719 \$ 675

## Notes and Source

**Combined Effective Tax Rate per AAWC filing, Schedule C-3**

Arizona American Water Company - Anthem/Agua Fria Wastew  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalize Expense C-13	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15	Depreciation Expense Related to Plant Retirements C-17	Depreciation Expense - Anthem/Agua Fria Wastewater Reclassified Accounts C-19 New
	<b>Revenues</b>					
1	Sewer Revenues					
2	Other Revenues					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
	<b>Operating Expenses</b>					
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees	\$ (1,860)	\$ (12,453)			
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					
20	General Taxes - Property Taxes				\$ (2,853)	\$ 13,392
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$ (1,860)	\$ (12,453)	\$ -	\$ (2,853)	\$ 13,392
16	PRE-TAX OPERATING INCOME	\$ 1,860	\$ 12,453	\$ -	\$ 2,853	\$ (13,392)
17	Income Taxes	\$ 718	\$ 4,807	\$ 19,177	\$ 1,101	\$ (5,169)
18	TOTAL OPERATING EXPENSES	\$ (1,142)	\$ (7,646)	\$ 19,177	\$ (1,752)	\$ 8,223
19	OPERATING INCOME	\$ 1,142	\$ 7,646	\$ (19,177)	\$ 1,752	\$ (8,223)

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-7  
Schedule A (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	\$ 14,764,087	\$ 14,596,027	\$ (168,060)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 1,259,377	\$ 988,735	\$ (270,642)
4	Adjusted net operating income	C (SC)	\$ (51,593)	\$ 68,704	\$ 120,297
5	Net operating income deficiency		\$ 1,310,969	\$ 920,031	\$ (390,938)
6	Gross revenue conversion factor	A-1 (SC)	1.6453	1.6453	
7	Revenue deficiency (Sufficiency)		\$ 2,156,882	\$ 1,513,691	\$ (643,191)
Percentage Increase Over Current Rates					
8	Revenue from Sales to Retail Customers	Sch C (SC), L.1	\$ 5,933,970	\$ 5,933,970	
9	Percentage Increase	L.7 / L.8	36.35%	25.51%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

**Calculation of RUCO recommended percentage increase to AAWC's base rates**

AAWC's adjusted water revenues per Schedule C (SC)	RUCO Proposed
\$ 5,933,970	\$ 5,933,970
RUCO recommended rate increase (line 7 above)	\$ 1,513,691
Total revenues after reflecting RUCO recommended increase	\$ 7,447,661
Percentage change in revenues	25.51%

**Calculation of AAWC's proposed percentage increase to base rates**

AAWC's adjusted water revenues per Schedule C (SC)	AAWC Proposed
\$ 5,933,970	\$ 5,933,970
AAWC proposed rate increase (line 7 above)	\$ 2,156,882
Total revenues after reflecting AAWC proposed increase	\$ 8,090,852
Percentage change in revenues	36.35%

Arizona American Water Company - Sun City Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule A-1 (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.54%	0.54%
3	Bad Debt Expense	0.08%	0.08%
4	Taxable Income as a Percent	99.38%	99.38%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.75%	67.75%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.78%	60.78%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6453</b>	<b>1.6453</b>

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11	Net Income	\$ 920,033 60.78%
12	Federal Income Taxes	\$ 478,794 31.63%
13	State Income Taxes	\$ 105,474 6.97%
14	Property Taxes	\$ 8,208 0.54%
15	Uncollectibles	\$ 1,182 0.08%
16	Total Revenue Increase	\$ 1,513,691 100.00%
17	Total Revenue Increase (From Schedule A (SC))	\$ 1,513,691

Arizona American Water Company - Sun City Wastewater  
Adjusted Rate Base

Attachment RCS-7  
Schedule B (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 24,469,337	\$ (12,242)	\$ 24,457,095
2	Accumulated Depreciation	\$ (10,761,769)	\$ -	\$ (10,761,769)
3	<b>Net Utility Plant in Service</b>	<u>\$ 13,707,569</u>	<u>\$ (12,242)</u>	<u>\$ 13,695,327</u>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (2,660,292)	\$ -	\$ (2,660,292)
5	Contributions in Aid of Construction (net of amortization)	\$ (12,327)	\$ (3,743)	\$ (16,070)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (360,708)	\$ -	\$ (360,708)
10	Deferred Income Taxes and Credits	\$ 1,824,256	\$ (47,073)	\$ 1,777,183
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<u>\$ (1,209,071)</u>	<u>\$ (50,816)</u>	<u>\$ (1,259,887)</u>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 2,057,405	\$ -	\$ 2,057,405
16	Allowance for Working Capital	\$ 208,182	\$ (105,000)	\$ 103,182
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<u>\$ 2,265,587</u>	<u>\$ (105,000)</u>	<u>\$ 2,160,587</u>
19	<b>Total Rate Base</b>	<u>\$ 14,764,087</u>	<u>\$ (168,058)</u>	<u>\$ 14,596,027</u>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City Wastewater  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B.1 (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction B-3	Cash Working Capital B-4 Revised	Comprehensive Planning Study B-7 New	Accumulated Deferred Income Taxes B-9 New
1	Gross Utility Plant in Service	\$ (12,242)			\$ (12,242)	
2	Accumulated Depreciation	\$ -				
3	<b>Net Utility Plant in Service</b>	<u>\$ (12,242)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,242)</u>	<u>\$ -</u>
<b>Less:</b>						
4	Advances in Aid of Construction	\$ -				
5	Contributions in Aid of Construction (net of amortization)	\$ (3,743)	\$ (3,743)			
6	Imputed Regulatory Advances	\$ -				
7	Imputed Regulatory Contributions	\$ -				
10	Deferred Income Taxes and Credits	\$ (47,073)				\$ (47,073)
11	Investment Tax Credits and Other Deferred Credits	\$ -				
12	<b>Total Reductions</b>	<u>\$ (50,816)</u>	<u>\$ (3,743)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,073)</u>
<b>Plus:</b>						
13	Unamortized Finance Charges	\$ -				
14	Deferred Tax Assets	\$ -				
15	Deferred Debits	\$ -				
16	Allowance for Working Capital	\$ (105,000)		\$ (105,000)		
17	Utility Plant Acquisition Adjustment	\$ -				
18	<b>Total Additions</b>	<u>\$ (105,000)</u>	<u>\$ -</u>	<u>\$ (105,000)</u>	<u>\$ -</u>	<u>\$ -</u>
18	<b>Total Rate Base</b>	<u>\$ (168,058)</u>	<u>\$ (3,743)</u>	<u>\$ (105,000)</u>	<u>\$ (12,242)</u>	<u>\$ (47,073)</u>

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule C (SC)  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 5,933,970	\$ -	\$ 5,933,970
2	Other Revenues	\$ 6,411	\$ -	\$ 6,411
3	<b>Total Revenues</b>	<b>\$ 5,940,381</b>	<b>\$ -</b>	<b>\$ 5,940,381</b>
<b>Operating Expenses</b>				
4	Labor	\$ 454,529	\$ (18,617)	\$ 435,912
5	Purchased Water	\$ -	\$ -	\$ -
6	Fuel & Power	\$ 15,804	\$ -	\$ 15,804
7	Chemicals	\$ 4,885	\$ -	\$ 4,885
8	Waste Disposal	\$ 3,300,475	\$ -	\$ 3,300,475
9	Management Fees	\$ 933,155	\$ (125,503)	\$ 807,652
10	Group Insurance	\$ 141,193	\$ (1,638)	\$ 139,555
11	Pensions	\$ 75,595	\$ (25,187)	\$ 50,408
12	Regulatory Expense	\$ 49,683	\$ (20,573)	\$ 29,110
13	Insurance Other Than Group	\$ 57,656	\$ -	\$ 57,656
14	Customer Accounting	\$ 145,686	\$ -	\$ 145,686
15	Rents	\$ 40,868	\$ -	\$ 40,868
16	General Office Expense	\$ 44,944	\$ -	\$ 44,944
17	Miscellaneous	\$ 104,503	\$ (2,620)	\$ 101,883
18	Maintenance Expense	\$ 61,533	\$ -	\$ 61,533
19	Depreciation & Amortization	\$ 679,999	\$ -	\$ 679,999
20	General Taxes - Property Taxes	\$ 157,456	\$ -	\$ 157,456
21	General Taxes - Other	\$ 34,880	\$ -	\$ 34,880
22	Income Taxes	\$ (310,869)	\$ 73,841	\$ (237,028)
23	<b>Total Operating Expenses</b>	<b>\$ 5,991,974</b>	<b>\$ (120,297)</b>	<b>\$ 5,871,677</b>
24	<b>Utility Operating Income</b>	<b>\$ (51,593)</b>	<b>\$ 120,297</b>	<b>\$ 68,704</b>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -		\$ -
26	Interest Expense	\$ (442,923)		\$ (442,923)
27	Other Expense	\$ (11,344)		\$ (11,344)
28	Gain/Loss Sale of Fixed Assets	\$ 3		\$ 3
29	<b>Total Other Additions/Deductions From Income</b>	<b>\$ (454,264)</b>	<b>\$ -</b>	<b>\$ (454,264)</b>
30	<b>Net Profit (Loss)</b>	<b>\$ (505,857)</b>	<b>\$ 120,297</b>	<b>\$ (385,560)</b>
31	Rate Base	\$ 14,764,087	\$ (168,058)	\$ 14,596,029
32	Earned Rate of Return	-0.35%		0.47%

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6	Dues, Donations & Miscellaneous Expenses C-7
<b>Revenues</b>								
1	Sewer Revenues	\$ -						
2	Other Revenues	\$ -						
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>								
4	Labor	\$ (18,617)		\$ (10,772)	\$ (7,845)			
5	Purchased Water	\$ -						
6	Fuel & Power	\$ -						
7	Chemicals	\$ -						
8	Waste Disposal	\$ -						
9	Management Fees	\$ (125,503)			\$ (5,249)			
10	Group Insurance	\$ (1,638)						
11	Pensions	\$ (25,187)				\$ (25,187)		\$ (1,638)
12	Regulatory Expense	\$ (20,573)	\$ (20,573)					
13	Insurance Other Than Group	\$ -						
14	Customer Accounting	\$ -						
15	Rents	\$ -						
16	General Office Expense	\$ -						
17	Miscellaneous	\$ (2,620)						\$ (2,620)
18	Maintenance Expense	\$ -						
19	Depreciation & Amortization	\$ -						
20	General Taxes - Property Taxes	\$ -						
21	General Taxes - Other	\$ -						
15	PRE-TAX OPERATING EXPENSES	\$ (194,138)	\$ (20,573)	\$ (10,772)	\$ (13,094)	\$ (25,187)	\$ (1,638)	\$ (2,620)
16	PRE-TAX OPERATING INCOME	\$ 194,138	\$ 20,573	\$ 10,772	\$ 13,094	\$ 25,187	\$ 1,638	\$ 2,620
17	Income Taxes	\$ 73,841	\$ 7,941	\$ 4,158	\$ 5,054	\$ 9,722	\$ 632	\$ 1,011
18	TOTAL OPERATING EXPENSES	\$ (120,297)	\$ (12,632)	\$ (6,614)	\$ (8,040)	\$ (15,465)	\$ (1,006)	\$ (1,609)
19	OPERATING INCOME	\$ 120,297	\$ 12,632	\$ 6,614	\$ 8,040	\$ 15,465	\$ 1,006	\$ 1,609

Notes and Source  
Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Sun City Wastew  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management										C-15 Revised
		C-9 Management Fees - Other Expenses	C-9A Post-Test Year Wage Increase	C-10 Management Fees - Affiliate Employee Benefits	C-11 Management Fees - Affiliate Incentive Compensation	C-12 Management Fees - Affiliate Pension Expense	C-13 Management Fees - Normalize Affiliate OPEB Expense	C-14 Management Fees - Remove Business Development Expenses	C-15 Interest Synchronization			

<b>Revenues</b>												
1	Sewer Revenues											
2	Other Revenues											
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<b>Operating Expenses</b>												
4	Labor											
5	Purchased Water											
6	Fuel & Power											
7	Chemicals											
8	Waste Disposal											
9	Management Fees	\$ (12,855)	\$ (14,140)	\$ (43,347)	\$ (40,500)	\$ (671)	\$ (1,136)	\$ (7,605)				
10	Group Insurance											
11	Pensions											
12	Regulatory Expense											
13	Insurance Other Than Group											
14	Customer Accounting											
15	Rents											
16	General Office Expense											
17	Miscellaneous											
18	Maintenance Expense											
19	Depreciation & Amortization											
20	General Taxes - Property Taxes											
21	General Taxes - Other											

15	PRE-TAX OPERATING EXPENSES	\$ (12,855)	\$ (14,140)	\$ (43,347)	\$ (40,500)	\$ (671)	\$ (1,136)	\$ (7,605)	\$ -			
16	PRE-TAX OPERATING INCOME	\$ 12,855	\$ 14,140	\$ 43,347	\$ 40,500	\$ 671	\$ 1,136	\$ 7,605	\$ -			
17	Income Taxes	\$ 4,962	\$ 5,458	\$ 16,732	\$ 15,633	\$ 259	\$ 439	\$ 2,936	\$ (1,096)			
18	TOTAL OPERATING EXPENSES	\$ (7,893)	\$ (8,682)	\$ (26,615)	\$ (24,867)	\$ (412)	\$ (697)	\$ (4,669)	\$ (1,096)			
19	OPERATING INCOME	\$ 7,893	\$ 8,682	\$ 26,615	\$ 24,867	\$ 412	\$ 697	\$ 4,669	\$ 1,096			

Notes and Source  
Combined Effective Tax Rate per AAWC filing, Schedi

Arizona American Water Company - Sun City West Wastewater  
Calculation of Revenue Deficiency (Sufficiency)

Attachment RCS-7  
Schedule A (SCW)  
Docket No. SW-01303A-09-0343  
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Revised

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SCW)	\$ 17,821,272	\$ 18,098,016	\$ 276,744
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		\$ 1,520,155	\$ 1,225,960	\$ (294,195)
4	Adjusted net operating income	C (SCW)	\$ 618,443	\$ 748,629	\$ 130,186
5	Net operating income deficiency		\$ 901,712	\$ 477,331	\$ (424,381)
6	Gross revenue conversion factor	A-1 (SCW)	1.6422	1.6422	
7	Revenue deficiency (Sufficiency)		\$ 1,480,756	\$ 783,855	\$ (696,901)
<u>Percentage Increase Over Current Rates</u>					
8	Revenue from Sales to Retail Customers	Sch C (SCW), L.1	\$ 5,660,389	\$ 5,660,389	
9	Percentage Increase	L.7 / L.8	26.16%	13.85%	

Notes and Source

Col.A: AAWC Filing, Revised Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates

AAWC's adjusted water revenues per Schedule C (SCW)	RUCO Proposed
\$ 5,660,389	\$ 5,660,389
RUCO recommended rate increase (line 7 above)	\$ 783,855
Total revenues after reflecting RUCO recommended increase	\$ 6,444,244
Percentage change in revenues	13.85%

Calculation of AAWC's proposed percentage increase to base rates

AAWC's adjusted water revenues per Schedule C (SCW)	AAWC Proposed
\$ 5,660,389	\$ 5,660,389
AAWC proposed rate increase (line 7 above)	\$ 1,480,756
Total revenues after reflecting AAWC proposed increase	\$ 7,141,145
Percentage change in revenues	26.16%

Arizona American Water Company - Sun City West Wastewater  
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule A-1 (SCW)  
Docket No. SW-01303A-09-0343  
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Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.49%	0.49%
3	Bad Debt Expense	0.02%	0.02%
4	Taxable Income as a Percent	99.49%	99.49%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.86%	67.86%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.90%	60.90%
9	<b>Gross Revenue Conversion Factor</b>	<b>1.6422</b>	<b>1.6422</b>

Notes and Source

Col.A: AAWC Filing, Schedule C-3		
Combined state and federal income tax rate	38.60%	38.60%

**Components of Revenue Requirement Increase**

	Amount	Percent
11 Net Income	\$ 477,331	60.90%
12 Federal Income Taxes	\$ 247,940	31.63%
13 State Income Taxes	\$ 54,619	6.97%
14 Property Taxes	\$ 3,828	0.49%
15 Uncollectibles	\$ 136	0.02%
16 Total Revenue Increase	\$ 783,854	100.00%
17 Total Revenue Increase (From Schedule A (SCW))	\$ 783,855	

Arizona American Water Company - Sun City West Wastewater  
Adjusted Rate Base

Attachment RCS-7  
Schedule B (SCW)  
Docket No. SW-01303A-09-0343  
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Revised

Test Year Ended December 31, 2008

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	\$ 35,931,696	\$ 1,052,065	\$ 36,983,761
2	Accumulated Depreciation	\$ (19,183,739)	\$ (630,244)	\$ (19,813,983)
3	<b>Net Utility Plant in Service</b>	<b>\$ 16,747,956</b>	<b>\$ 421,821</b>	<b>\$ 17,169,777</b>
<b>Less:</b>				
4	Advances in Aid of Construction	\$ (145,453)	\$ -	\$ (145,453)
5	Contributions in Aid of Construction (net of amortization)	\$ (4,747)	\$ -	\$ (4,747)
6	Imputed Regulatory Advances	\$ -	\$ -	\$ -
7	Imputed Regulatory Contributions	\$ (443,212)	\$ -	\$ (443,212)
10	Deferred Income Taxes and Credits	\$ 1,243,135	\$ (32,077)	\$ 1,211,058
11	Investment Tax Credits and Other Deferred Credits	\$ -	\$ -	\$ -
12	<b>Total Reductions</b>	<b>\$ 649,723</b>	<b>\$ (32,077)</b>	<b>\$ 617,646</b>
<b>Plus:</b>				
13	Unamortized Finance Charges	\$ -	\$ -	\$ -
14	Deferred Tax Assets	\$ -	\$ -	\$ -
15	Deferred Debits	\$ 108,771	\$ -	\$ 108,771
16	Allowance for Working Capital	\$ 314,822	\$ (113,000)	\$ 201,822
17	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
18	<b>Total Additions</b>	<b>\$ 423,593</b>	<b>\$ (113,000)</b>	<b>\$ 310,593</b>
19	<b>Total Rate Base</b>	<b>\$ 17,821,272</b>	<b>\$ 276,744</b>	<b>\$ 18,098,016</b>

Notes and Source

Col.A: AAWC Filing, Schedule B-1

Col.B: Schedule B.1

Arizona American Water Company - Sun City West Wastewater  
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B.1 (SCW)  
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Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction			Cash Working Capital	Comprehensive Planning Study		Allocation of NWVTP		Accumulated Deferred Income Taxes	
			B-3	B-3	B-3	B-4 Revised	B-7 New	B-7 New	B-8 New	B-8 New	B-9 New	B-9 New
1	Gross Utility Plant in Service	\$ 1,052,065						\$ 12,242	\$ 1,039,823			
2	Accumulated Depreciation	\$ (630,244)						\$ (630,244)				
3	<b>Net Utility Plant in Service</b>	<b>\$ 421,821</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,242</b>	<b>\$ 12,242</b>	<b>\$ 409,579</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Less:</b>												
4	Advances in Aid of Construction	\$ -										
5	Contributions in Aid of Construction (net of amortization)	\$ -										
6	Imputed Regulatory Advances	\$ -										
7	Imputed Regulatory Contributions	\$ -										
10	Deferred Income Taxes and Credits	\$ (32,077)									\$ (32,077)	
11	Investment Tax Credits and Other Deferred Credits	\$ -										
12	<b>Total Reductions</b>	<b>\$ (32,077)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (32,077)</b>	<b>\$ -</b>
<b>Plus:</b>												
13	Unamortized Finance Charges	\$ -										
14	Deferred Tax Assets	\$ -										
15	Deferred Debits	\$ -										
16	Allowance for Working Capital	\$ (113,000)										
17	Utility Plant Acquisition Adjustment	\$ -										
18	<b>Total Additions</b>	<b>\$ (113,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (113,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
18	<b>Total Rate Base</b>	<b>\$ 276,744</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (113,000)</b>	<b>\$ 12,242</b>	<b>\$ 12,242</b>	<b>\$ 409,579</b>	<b>\$ (32,077)</b>	<b>\$ -</b>	<b>\$ -</b>

Notes and Source

See referenced exhibit for each adjustment

Arizona American Water Company - Sun City West Wastewater  
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule C (SCW)  
Docket No. SW-01303A-09-0343  
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Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
<b>Revenues</b>				
1	Sewer Revenues	\$ 5,660,389	\$ -	\$ 5,660,389
2	Other Revenues	\$ 1,321	\$ -	\$ 1,321
3	<b>Total Revenues</b>	<u>\$ 5,661,710</u>	<u>\$ -</u>	<u>\$ 5,661,710</u>
<b>Operating Expenses</b>				
4	Labor	\$ 766,759	\$ (21,079)	\$ 745,680
5	Purchased Water	\$ 7,156	\$ -	\$ 7,156
6	Fuel & Power	\$ 385,512	\$ -	\$ 385,512
7	Chemicals	\$ 401,682	\$ -	\$ 401,682
8	Waste Disposal	\$ 103,272	\$ -	\$ 103,272
9	Management Fees	\$ 789,604	\$ (106,197)	\$ 683,407
10	Group Insurance	\$ 267,064	\$ (1,386)	\$ 265,678
11	Pensions	\$ 150,285	\$ (50,830)	\$ 99,455
12	Regulatory Expense	\$ 43,794	\$ (18,954)	\$ 24,840
13	Insurance Other Than Group	\$ 48,786	\$ -	\$ 48,786
14	Customer Accounting	\$ 123,968	\$ -	\$ 123,968
15	Rents	\$ 38,079	\$ -	\$ 38,079
16	General Office Expense	\$ 49,950	\$ -	\$ 49,950
17	Miscellaneous	\$ 243,174	\$ (2,216)	\$ 240,958
18	Maintenance Expense	\$ 138,620	\$ -	\$ 138,620
19	Depreciation & Amortization	\$ 1,238,799	\$ -	\$ 1,238,799
20	General Taxes - Property Taxes	\$ 135,172	\$ -	\$ 135,172
21	General Taxes - Other	\$ 58,909	\$ -	\$ 58,909
22	Income Taxes	\$ 52,682	\$ 70,477	\$ 123,159
23	<b>Total Operating Expenses</b>	<u>\$ 5,043,267</u>	<u>\$ (130,186)</u>	<u>\$ 4,913,081</u>
24	<b>Utility Operating Income</b>	<u>\$ 618,443</u>	<u>\$ 130,186</u>	<u>\$ 748,629</u>
<b>Other Income &amp; Deductions</b>				
25	Other Income & Deductions	\$ -	\$ -	\$ -
26	Interest Expense	\$ (534,638)	\$ -	\$ (534,638)
27	Other Expense	\$ (9,599)	\$ -	\$ (9,599)
28	Gain/Loss Sale of Fixed Assets	\$ 2	\$ -	\$ 2
29	<b>Total Other Additions/Deductions From Income</b>	<u>\$ (544,235)</u>	<u>\$ -</u>	<u>\$ (544,235)</u>
30	<b>Net Profit (Loss)</b>	<u>\$ 74,208</u>	<u>\$ 130,186</u>	<u>\$ 204,394</u>
31	Rate Base	<u>\$ 17,821,272</u>	<u>\$ 276,744</u>	<u>\$ 18,098,016</u>
32	Earned Rate of Return	<u>3.47%</u>		<u>4.14%</u>

Notes and Source

Col.A: AAWC Filing, Schedule C-1  
Col.B: Schedule C.1  
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense C-2	Achievement Incentive Pay C-3	Stock-Based Compensation C-4	Pension Expense C-5	OPEB Expense C-6
<b>Revenues</b>							
1	Sewer Revenues	\$ -					
2	Other Revenues	\$ -					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>							
4	Labor	\$ (21,079)		\$ (14,441)	\$ (6,638)		
5	Purchased Water	\$ -					
6	Fuel & Power	\$ -					
7	Chemicals	\$ -					
8	Waste Disposal	\$ -					
9	Management Fees	\$ (106,197)			\$ (4,442)		
10	Group Insurance	\$ (1,386)					\$ (1,386)
11	Pensions	\$ (50,830)					
12	Regulatory Expense	\$ (18,954)	\$ (18,954)			\$ (50,830)	
13	Insurance Other Than Group	\$ -					
14	Customer Accounting	\$ -					
15	Rents	\$ -					
16	General Office Expense	\$ -					
17	Miscellaneous	\$ (2,216)					
18	Maintenance Expense	\$ -					
19	Depreciation & Amortization	\$ -					
20	General Taxes - Property Taxes	\$ -					
21	General Taxes - Other	\$ -					
15	PRE-TAX OPERATING EXPENSES	\$ (200,663)	\$ (18,954)	\$ (14,441)	\$ (11,080)	\$ (50,830)	\$ (1,386)
16	PRE-TAX OPERATING INCOME	\$ 200,663	\$ 18,954	\$ 14,441	\$ 11,080	\$ 50,830	\$ 1,386
17	Income Taxes	\$ 70,477	\$ 7,316	\$ 5,574	\$ 4,277	\$ 19,620	\$ 535
18	TOTAL OPERATING EXPENSES	\$ (130,186)	\$ (11,638)	\$ (8,867)	\$ (6,803)	\$ (31,210)	\$ (851)
19	OPERATING INCOME	\$ 130,186	\$ 11,638	\$ 8,867	\$ 6,803	\$ 31,210	\$ 851

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Miscellaneous Expenses C-7	Management Fees - 4% Post-Test Year Wage Increase C-9A New	Management Fees - Affiliate Employee Benefits C-10	Management Fees - Affiliate Incentive Compensation C-11	Management Fees - Normalized Affiliate Pension Expense C-12
	<b>Revenues</b>					
1	Sewer Revenues					
2	Other Revenues					
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
	<b>Operating Expenses</b>					
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees	\$ (10,878)	\$ (11,965)	\$ (36,678)	\$ (34,269)	\$ (568)
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous	\$ (2,216)				
18	Maintenance Expense					
19	Depreciation & Amortization					
20	General Taxes - Property Taxes					
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	\$ (2,216)	\$ (11,965)	\$ (36,678)	\$ (34,269)	\$ (568)
16	PRE-TAX OPERATING INCOME	\$ 2,216	\$ 11,965	\$ 36,678	\$ 34,269	\$ 568
17	Income Taxes	\$ 855	\$ 4,618	\$ 14,158	\$ 13,228	\$ 219
18	TOTAL OPERATING EXPENSES	\$ (1,361)	\$ (7,347)	\$ (22,520)	\$ (21,041)	\$ (349)
19	OPERATING INCOME	\$ 1,361	\$ 7,347	\$ 22,520	\$ 21,041	\$ 349

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City West Wastewater  
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalize Affiliate Expense C-13	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15 Revised
<b>Revenues</b>				
1	Sewer Revenues			
2	Other Revenues			
3	<b>Total Revenues</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>				
4	Labor			
5	Purchased Water			
6	Fuel & Power			
7	Chemicals			
8	Waste Disposal			
9	Management Fees	\$ (961)	\$ (6,435)	
10	Group Insurance			
11	Pensions			
12	Regulatory Expense			
13	Insurance Other Than Group			
14	Customer Accounting			
15	Rents			
16	General Office Expense			
17	Miscellaneous			
18	Maintenance Expense			
19	Depreciation & Amortization			
20	General Taxes - Property Taxes			
21	General Taxes - Other			
15	PRE-TAX OPERATING EXPENSES	\$ (961)	\$ (6,435)	\$ -
16	PRE-TAX OPERATING INCOME	\$ 961	\$ 6,435	\$ -
17	Income Taxes	\$ 371	\$ 2,484	\$ (6,977)
18	TOTAL OPERATING EXPENSES	\$ (590)	\$ (3,951)	\$ (6,977)
19	OPERATING INCOME	\$ 590	\$ 3,951	\$ 6,977

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company  
 Plant Retirements - Anthem/Agua Fria Wastewater

Test Year Ended December 31, 2008

Attachment RCS-7  
 Schedule B-2  
 Docket No. SW-01303A-09-0343  
 Page 1 of 1

Line No.	Description	Amount (A)	Reference
1	Remove Two 75-HP Final Effluent Pumps From Utility Plant in Service	\$ (52,636)	A
2	Reduce Accumulated Depreciation to Reflect the Retirement of Two 75-HP Final Effluent Pumps	\$ 52,636	
3	Net Adjustment to Utility Plant in Service	\$ -	

Notes and Source

A: Amount per AAWC's response to STF 7.3

Arizona American Water Company  
Cash Working Capital

Test Year Ended December 31, 2008

Attachment RCS-7  
Schedule B-4  
Docket No. SW-01303A-09-0343  
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Revised

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Cash Working Capital Requirement Per Filing	\$ 285,666	\$ 129,827	\$ 229,465	\$ 644,958	A
2	RUCO Recommended Cash Working Capital Requirement	\$ 155,688	\$ 24,767	\$ 116,681	\$ 297,136	B
3	Adjustment to Cash Working Capital	\$ (129,978)	\$ (105,060)	\$ (112,784)	\$ (347,822)	
4	Adjustment to Cash Working Capital Rounded to Nearest \$000	\$ (130,000)	\$ (105,000)	\$ (113,000)	\$ (348,000)	

Notes and Source

A: AAWC filing, Schedule B-6

B: See Schedules B-4 (AAF), B-4 (SC) and B-4 (SCW)

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Cash Working Capital Required (H)	Reference
<b>OPERATING EXPENSES</b>									
1	P08 Labor	\$ 1,335,278	\$ (30,484)	\$ 1,304,794	39.96	27,9590	0.0766	\$ 99,947	
2	P09 Purchased Water	\$ 3,368	\$	\$ 3,368	39.96	(12.5635)	(0.0344)	\$ (116)	
3	P10 Fuel & Power	\$ 278,664	\$	\$ 278,664	39.96	16.4990	0.0452	\$ 12,596	
4	P11 Chemicals	\$ 303,374	\$	\$ 303,374	39.96	14.63	-	\$ -	b
5	P12 Waste disposal	\$ 199,095	\$	\$ 199,095	39.96	26.90	0.0358	\$ 7,124	
6	P13 Management Fees	\$ 1,528,005	\$ (205,507)	\$ 1,322,498	39.96	12.00	0.0766	\$ 101,303	a
7	P14 Group Insurance	\$ 396,599	\$ (2,682)	\$ 393,917	39.96	53.6628	0.1470	\$ 57,914	
8	P15 Pensions	\$ 221,640	\$ (72,483)	\$ 149,157	39.96	42.3274	0.1160	\$ 17,297	
9	P17 Insurance Other Than Group	\$ 94,566	\$	\$ 94,566	39.96	123.6434	0.3387	\$ 32,034	
10	P18 Customer Accounting	\$ 242,170	\$	\$ 242,170	39.96	19.6490	0.0538	\$ 13,037	c
11	P19 Rents	\$ 84,483	\$	\$ 84,483	39.96	124.1198	0.3401	\$ 28,729	
12	P21 Miscellaneous	\$ 534,489	\$	\$ 534,489	39.96	23.1215	0.0633	\$ 33,858	
13	P25 Maintenance Expense	\$ 246,204	\$	\$ 246,204	39.96	21.7202	0.0595	\$ 14,651	
14	Other Operating Expenses	\$ 166,636	\$ (35,968)	\$ 130,668	39.96	9.9590	0.0273	\$ 3,565	
15	P29 Property Taxes	\$ 296,804	\$	\$ 296,804	39.96	191.37	(0.4148)	\$ (123,123)	
16	P29 Taxes Other than Income	\$ 87,538	\$	\$ 87,538	39.96	13.35	0.0729	\$ 6,383	
17	P30 Income Tax	\$ 1,659,460	\$ 2,111,853	\$ 3,771,313	39.96	9.8290	0.0269	\$ 101,557	
18	P56 Interest Sync	\$ 1,432,072	\$ (49,681)	\$ 1,382,391	39.96	106.25	(0.1816)	\$ (251,069)	
19	Working Cash Requirement	\$ 9,110,446	\$ 1,715,049	\$ 10,825,495				\$ 155,688	
20	Working Cash Requirement per Company							\$ 285,666	
21	Adjustment to Cash Working Capital							\$ (129,978)	

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.96. Company used 46.04 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days  
b: The Company accepted Staff's adjustment to remove chemical expense from its CWC calculation  
c: The Company accepted Staff's adjustment to remove bad debt expense from Customer Accounting Expense

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	\$ 1,659,460
24	RUCO adjustments to current income taxes	\$ 149,098
25	Income Taxes for Revenue Increase	\$ 1,962,755
26	Total current income taxes for CWC calculation	\$ 3,771,313

Test Year Ended December 31, 2008

Line No.	Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/Lag Factor (G)	Working Capital Required (H)
OPERATING EXPENSES								
1 P08 Labor	\$ 454,529	\$ (18,617)	\$ 435,912	39.65	12.00	27.65	0.0758	\$ 33,024
2 P10 Fuel & Power	\$ 15,804	\$	\$ 15,804	39.65	20.75	18.91	0.0518	\$ 819
3 P11 Chemicals	\$ 4,885	\$	\$ 4,885	39.65	20.35	-	-	\$ -
4 P12 Waste Disposal	\$ 3,300,475	\$	\$ 3,300,475	39.65	43.73	(4.08)	(0.0112)	\$ (36,919)
5 P13 Management Fees	\$ 933,155	\$ (125,503)	\$ 807,652	39.65	12.00	27.65	0.0758	\$ 61,187 a
6 P14 Group Insurance	\$ 141,193	\$ (1,638)	\$ 139,555	39.65	(13.67)	53.32	0.1461	\$ 20,388
7 P15 Pensions	\$ 75,595	\$ (25,187)	\$ 50,408	39.65	(2.37)	42.02	0.1151	\$ 5,803
8 P17 Insurance Other Than Group	\$ 57,656	\$	\$ 57,656	39.65	(83.68)	123.34	0.3379	\$ 19,482
9 P18 Customer Accounting	\$ 145,686	\$	\$ 145,686	39.65	20.31	19.34	0.0530	\$ 7,720 c
10 P19 Rents	\$ 40,868	\$	\$ 40,868	39.65	(93.42)	133.08	0.3646	\$ 14,900
11 P21 Miscellaneous	\$ 104,503	\$	\$ 104,503	39.65	12.47	27.18	0.0745	\$ 7,782
12 P25 Maintenance Expense	\$ 61,533	\$	\$ 61,533	39.65	29.75	9.91	0.0271	\$ 1,670
13 Other Operating Expenses	\$ 94,627	\$ (23,193)	\$ 71,434	39.65	30.00	9.65	0.0264	\$ 1,889
14 P29 Property Taxes	\$ 157,456	\$	\$ 157,456	39.65	189.67	(150.02)	(0.4110)	\$ (64,716)
15 P29 Taxes Other than Income	\$ 34,880	\$	\$ 34,880	39.65	13.35	26.31	0.0721	\$ 2,514
16 P30 Income Tax	\$ 513,251	\$ 658,109	\$ 1,171,360	39.65	30.13	9.52	0.0261	\$ 30,558
17 P56 Interest	\$ 442,923	\$ 2,840	\$ 445,763	39.65	106.25	(66.60)	(0.1825)	\$ (81,334)
18 Total	\$ 6,579,018	\$ 466,811	\$ 7,045,829					
19 Working Cash Requirement								\$ 24,767
20 Working Cash Requirement per Company								\$ 129,827
21 Adjustment to Cash Working Capital								\$ (105,060)

Notes and Source

AAWC Filing, Schedule B-6

- Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.74 revenue lag days  
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days  
b: The Company accepted Staff's adjustment to remove chemical expense from its CWC calculation  
c: The Company accepted Staff's adjustment to remove bad debt expense from Customer Accounting Expense

Line 17, Col. C, Current Income Taxes:

23 Per AAWC	\$ 513,251	
24 RUCO adjustments to current income taxes	\$ 73,841	Schedule C.1 (SC), line 17
25 Income Taxes for Revenue Increase	\$ 584,268	Schedule A-1 (SC), lines 12 & 13
26 Total current income taxes for CWC calculation	\$ 1,171,360	

Test Year Ended December 31, 2008

Line No.		Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/ Lag Factor (G)	Cash Working Capital Required (H)	Reference	
OPERATING EXPENSES											
1	P08 Labor	\$ 766,759	\$ (21,079)	\$ 745,680	39.61	12.00	27.6100	0.0756	\$ 56,406		
2	P09 Purchased Water	\$ 7,156	\$ 7,156	\$ 7,156	39.61	52.52	(12.9125)	(0.0354)	\$ (253)		
3	P10 Fuel & Power	\$ 385,512	\$ 385,512	\$ 385,512	39.61	23.18	16.4269	0.0450	\$ 17,350		
4	P11 Chemicals	\$ 401,682	\$ 401,682	\$ 401,682	39.61	17.28	-	-	\$ -	b	
5	P12 Waste Disposal	\$ 103,272	\$ 103,272	\$ 103,272	39.61	19.93	19.6778	0.0539	\$ 5,568		
6	P13 Management Fees	\$ 789,604	\$ (106,197)	\$ 683,407	39.61	12.00	27.6100	0.0756	\$ 51,695	a	
7	P14 Group Insurance	\$ 267,064	\$ (1,386)	\$ 265,678	39.61	(13.62)	53.2254	0.1458	\$ 38,742		
8	P15 Pensions	\$ 150,285	\$ (50,830)	\$ 99,455	39.61	(2.37)	41.9784	0.1150	\$ 11,438		
9	P17 Insurance Other Than Group	\$ 48,786	\$ 48,786	\$ 48,786	39.61	(83.68)	123.2944	0.3378	\$ 16,480		
10	P18 Customer Accounting	\$ 123,968	\$ 123,968	\$ 123,968	39.61	20.31	19.3000	0.0529	\$ 6,555	c	
11	P19 Rents	\$ 38,079	\$ 38,079	\$ 38,079	39.61	(72.11)	111.7201	0.3061	\$ 11,655		
12	P21 Miscellaneous	\$ 243,174	\$ 243,174	\$ 243,174	39.61	9.91	29.7026	0.0814	\$ 19,789		
13	P25 Maintenance Expense	\$ 138,620	\$ 138,620	\$ 138,620	39.61	26.14	13.4742	0.0369	\$ 5,117		
14	P25 Other Operating Expenses	\$ 93,744	\$ (21,170)	\$ 72,574	39.61	30.00	9.6100	0.0263	\$ 1,911		
15	P29 Property Taxes	\$ 135,000	\$ 135,000	\$ 135,000	39.61	187.98	(148.3742)	(0.4065)	\$ (54,878)		
16	P29 Taxes Other than Income	\$ 58,909	\$ 58,909	\$ 58,909	39.61	13.35	26.2638	0.0720	\$ 4,239		
17	P30 Income Tax	\$ 619,532	\$ 373,036	\$ 992,568	39.61	30.13	9.4800	0.0250	\$ 25,780		
18	P56 Interest Sync	\$ 534,640	\$ 18,073	\$ 552,713	39.61	106.25	(66.6400)	(0.1826)	\$ (100,912)		
19	Total	\$ 4,905,786	\$ 190,447	\$ 5,096,232							
20	Working Cash Requirement								\$ 116,681		
21	Working Cash Requirement per Company								\$ 229,455		
22	Adjustment to Cash Working Capital								\$ (112,784)		

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.61. Company used 45.63 revenue lag days

a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

b: The Company accepted Staff's adjustment to remove chemical expense from its CWC calculation

c: The Company accepted Staff's adjustment to remove bad debt expense from Customer Accounting Expense

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	\$ 619,532														
24	RUCO adjustments to current income taxes	\$ 70,477														
25	Income Taxes for Revenue Increase	\$ 302,559														
26	Total current income taxes for CWC calculation	\$ 992,568														

Arizona American Water Company  
Verrado Wastewater Plant - Anthem/Agua Fria Wastewater

Attachment RCS-7  
Schedule B-6  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
New

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria		Reference
		Wastewater	(A)	
1	Adjustment to Reduce Utility Plant in Service Related to the Verrado Wastewater Plant	\$ (1,838,637)		A

Notes and Source

A: AAWC accepted Staff's adjustment related to the Verrado Wastewater Plant per the rebuttal testimony of Company witness Sandra L. Murrey

Arizona American Water Company  
Comprehensive Planning Study

Attachment RCS-7  
Schedule B-7  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
New

Test Year Ended December 31, 2008

Line No.	Description	Amount (A)	Reference
1	Adjustment to Transfer Costs Associated With Planning Study From Sun City Wastewater	\$ (12,242)	A
2	Adjustment to Transfer Costs Associated With Planning Study to Sun City West Wastewater	\$ 12,242	A
3	Net Adjustment to Utility Plant in Service Related to Planning Study	\$ -	

Notes and Source

A: AAWC accepted Staff's adjustment related to the main planning study per the rebuttal testimony of Company witness Sandra L. Murrey

Line No.	Description	Amount (A)	Reference
<b>Utility Plant in Service</b>			
1	Adjustment to Revise Allocation of the NWWTP Related to Anthem/Agua Fria Wastewater	\$ (1,039,823)	A
2	Adjustment to Revise Allocation of the NWWTP Related to Sun City West Wastewater	\$ 1,039,823	A
3	Net Adjustment to Utility Plant in Service Related to the NWWTP	\$ -	
<b>Accumulated Depreciation</b>			
4	Adjustment to Revise Allocation of the NWWTP Related to Anthem/Agua Fria Wastewater	\$ 630,244	A
5	Adjustment to Revise Allocation of the NWWTP Related to Sun City West Wastewater	\$ (630,244)	A
6	Net Adjustment to Accumulated Depreciation in Service Related to the NWWTP	\$ -	

Notes and Source

A: AAWC accepted Staff's adjustments related to the NWWTP per the rebuttal testimony of Company witness Linda J. Gutowski

Arizona American Water Company  
Rate Case Expense

Attachment RCS-7  
Schedule C-2  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	\$ 72,069	\$ 44,090	\$ 39,060	\$ 155,219	A
2	RUCO Recommended Normalized Rate Case Expense	\$ 40,390	\$ 23,517	\$ 20,106	\$ 84,013	B
3	Adjustment to Rate Case Expense	\$ (31,679)	\$ (20,573)	\$ (18,954)	\$ (71,206)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

	Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
4 Estimated Rate Case Expense per Company	\$ 678,425	\$ 678,425	\$ 678,425
5 Normalized over three years	3	3	3
6 Estimated Normalized Rate Case Expense	\$ 226,142	\$ 226,142	\$ 226,142
7 2009 Group 4-Factor per Company	26.341%	15.337%	13.113%
8 Allocated Rate Case Expense	\$ 59,569	\$ 34,684	\$ 29,654
9 Unamortized Balance of Prior Rate Case Expense	\$ 37,500	\$ 28,218	\$ 28,218
10 Normalized over three years	3	3	3
11 Annual Amortization of Unamortized Rate Case Expense	\$ 12,500	\$ 9,406	\$ 9,406
12 Pro Forma Rate Case Expense	\$ 72,069	\$ 44,090	\$ 39,060

B: RUCO recommended Rate Case Expense calculated as follows:

	Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
13 RUCO recommended Rate Case Expense	\$ 460,000	\$ 460,000	\$ 460,000
14 Normalized over three years	3	3	3
15 Normalized Rate Case Expense	\$ 153,333	\$ 153,333	\$ 153,333
16 2009 Group 4-Factor	26.341%	15.337%	13.113%
17 Allocated Rate Case Expense	\$ 40,390	\$ 23,517	\$ 20,106

Arizona American Water Company  
Achievement Incentive Pay

Attachment RCS-7  
Schedule C-3  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Achievement Incentive Pay Recorded at 12/31/2008	\$ -	\$ -	\$ 17,753	\$ 17,753	A
2	Corporate Allocation	\$ 58,795	\$ 35,906	\$ 30,382	\$ 125,083	A&B
3	Total Achievement Incentive Pay	\$ 58,795	\$ 35,906	\$ 48,135	\$ 142,836	
4	Disallowance Percentage	30%	30%	30%		C
5	Adjustment to Achievement Incentive Pay	\$ (17,639)	\$ (10,772)	\$ (14,441)	\$ (42,852)	

Notes and Source

- A: Amounts above per Company workpaper "AI-2008" for each district  
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2  
C: Testimony of RUCO witness Ralph Smith

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjustment to Remove Stock-Based Compensation - Management Fees	\$ (8,595)	\$ (5,249)	\$ (4,442)	\$ (18,286)	A
2	Adjustment to Remove Stock-Based Compensation - Labor	\$ (12,845)	\$ (7,845)	\$ (6,638)	\$ (27,328)	A
3	Total Adjustment to Remove Stock-Based Compensation	<u>\$ (21,440)</u>	<u>\$ (13,094)</u>	<u>\$ (11,080)</u>	<u>\$ (45,614)</u>	

Notes and Source

A: Amounts below from AAWC's supplemental response to RUCO 6-3

Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
4 Comp - Stock Options - Account 501716	\$ 36,693		\$ 36,693
5 Comp - Restricted Stock - Account 501717	\$ 28,834	\$ 103,974	\$ 132,808
6 Comp - Restricted Stock Units - Account 701718	\$ 4,046		\$ 4,046
7 Total Test Year Stock-Based Compensation	<u>\$ 69,573</u>	<u>\$ 103,974</u>	<u>\$ 173,547</u>
<b>Service Company Portion</b>			
8 Total Test Year Stock-Based Compensation - Service Company Portion	Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
9 4-Factor Allocator	\$ 69,573	\$ 69,573	\$ 69,573
10 Total Allocated Test Year Stock-Based Compensation - Service Company Portion	<u>12.354%</u>	<u>7.545%</u>	<u>6.3842%</u>
	<u>\$ 8,595</u>	<u>\$ 5,249</u>	<u>\$ 4,442</u>
<b>Non-Affiliate Portion</b>			
11 Total Test Year Stock-Based Compensation - Non-Affiliate Portion	\$ 103,974	\$ 103,974	\$ 103,974
12 4-Factor Allocator	<u>12.354%</u>	<u>7.545%</u>	<u>6.384%</u>
13 Total Allocated Test Year Stock-Based Compensation - Non-Affiliate Portion	<u>\$ 12,845</u>	<u>\$ 7,845</u>	<u>\$ 6,638</u>

Test Year Ended December 31, 2008

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Pro Forma Pension Expense Per Filing	\$ 221,640	\$ 74,281	\$ 148,791	\$ 444,712	A
2	RUCO Recommended Pro Forma Pension Expense	\$ 149,157	\$ 49,094	\$ 97,961	\$ 296,212	B&C
3	Adjustment to Pension Expense	\$ (72,483)	\$ (25,187)	\$ (50,830)	\$ (148,500)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
5 Recorded Pension Expense - 2007	\$ 903,222
6 Recorded Pension Expense - 2008	\$ 1,734,561
7 Subtotal	\$ 2,637,783
8 Normalized Over Two Years	2
9 Normalized Pension Expense	\$ 1,318,892

C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company workpaper "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

Arizona American Water Company  
OPEB Expense

Attachment RCS-7  
Schedule C-6  
Docket No. SW-01303A-09-0343  
Page 1 of 1

Test Year Ended December 31, 2008

Line No.	Description	Antem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	\$ 78,238	\$ 78,238	\$ 78,238		A
2	4 Factor Allocation Factor	12.354%	7.545%	6.384%		
3	Adjusted Test Year OPEB Expense Per Company	\$ 9,666	\$ 5,903	\$ 4,995	\$ 20,564	
4	RUCO Recommended Pro Forma OPEB Expense	\$ 6,984	\$ 4,265	\$ 3,609	\$ 14,858	
5	Adjustment to OPEB Expense	\$ (2,682)	\$ (1,638)	\$ (1,386)	\$ (5,706)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

	Amount
7 Recorded OPEB Amount - 2007	\$ 62,603
8 Recorded OPEB Amount - 2008	\$ 75,723
9 Subtotal	\$ 138,326
10 Normalized Over Two Years	2
11 Normalized OPEB Cost	\$ 69,163
12 Capitalization Percentage	18.3%
13 Capitalized Portion of OPEB Cost	\$ (12,634)
14 Expensed Portion of OPEB Cost	\$ 56,529
	L11 + L13
15 4 Factor Allocation Factor	12.354%
16 Antem/Agua Fria Wastewater Portion of OPEB Expense	\$ 6,984
	L14 x L15
17 4 Factor Allocation Factor	7.545%
18 Sun City Wastewater Portion of OPEB Expense	\$ 4,265
	L14 x L17
21 4 Factor Allocation Factor	6.384%
22 Sun City West Wastewater Portion of OPEB Expense	\$ 3,609
	L14 x L21

Arizona American Water Company  
Interest Synchronization

Attachment RCS-7  
Schedule C-15  
Docket No. SW-01303A-09-0343  
Page 1 of 1  
Revised

Test Year Ended December 31, 2008  
(Thousands of Dollars)

Line No.	Description	Anthem/Aqua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjusted Rate Base, per RUCO	\$ 45,264,942	\$ 14,596,027	\$ 18,098,016	\$ 77,958,985	Schedules B (AAF), B (SC) and B (SCW)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%	3.05%		Per RUCO - Schedule D
3	Interest Deduction for Tax Purposes	\$ 1,382,391	\$ 445,763	\$ 552,713	\$ 2,380,867	L1 x L2
4	Interest Deduction per Company	\$ 1,432,072	\$ 442,923	\$ 534,638	\$ 2,409,633	Note A
5	Difference (Decreased) Increased Interest Deduction	\$ (49,681)	\$ 2,840	\$ 18,075	\$ (28,766)	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	\$ 19,177	\$ (1,096)	\$ (6,977)	\$ 11,104	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Arizona American Water Company  
 Depreciation Expense - Anthem/Agua Fria Wastewater

Test Year Ended December 31, 2008

Attachment RCS-7  
 Schedule C-17  
 Docket No. SW-01303A-09-0343  
 Page 1 of 1

Line No.	Description	Amount (A)	Reference
1	Two 75-HP Final Effluent Pumps Removed From Utility Plant in Service	\$ (52,636)	A
2	Depreciation Rate	5.42%	B
3	Adjustment to Depreciation Expense	<u>\$ (2,853)</u>	

Notes and Source

A: See Exhibit LA-1, Schedule B-1

B: Depreciation rate taken from rate base Adjustment No. SLM-1 from AAWC's filing

Arizona American Water Company  
 Depreciation Expense - Anthem/Agua Fria Wastewater Reclassified Accounts

Attachment RCS-6  
 Schedule C-19  
 Docket No. SW-01303A-09-0343  
 Page 1 of 1  
 New

Test Year Ended December 31, 2008

Line No.	Account	Description	Amount (A)	Depreciation Rate* (B)	Depreciation Expense (C)	Reference
1	354400	Wastewater Structures & Improvements	\$ (487,000)	1.67%	\$ (8,133)	A
2	355500	Power Generation Equipment	\$ 487,000	4.42%	\$ 21,525	A
3		Net Adjustment to Depreciation Expense			<u>\$ 13,392</u>	

Notes and Source

A: These adjustments to depreciation expense reflect the impact of Staff's adjustment to reclassify the amount in Column A between the referenced accounts as discussed in the Rebuttal Testimony of Company witness Sandra L. Murrey

\* Depreciation rates from revised Company Adjustment SLM-1

**Arizona-American Water Company**  
**Docket No. W-01303A-09-0343 & SW-01303A-09-0343**  
**Attachment RCS-8**  
**Copies of AAWC's Responses to Data Requests**  
**and Documents Referenced in the Surrebuttal Testimony and Schedules of**  
**Ralph C. Smith**

<b>Data Request/ Workpaper No.</b>	<b>Subject</b>	<b>Confidential</b>	<b>No. of Pages</b>	<b>Page No.</b>
	Excerpt of IAWC President Teasley's Direct Testimony in Illinois Docket No. 09-0319	No	3	2 - 4
	Excerpt of Final Order in West Virginia Case No. 08-1783-G-42T, dated November 20, 2009	No	7	5 - 11
RUCO 7-1	Treatment of pension accruals and contributions for ratemaking purposes (without attachment)	No	1	12
	Total Pages Including this Page		12	

**ILLINOIS COMMERCE COMMISSION**

**IAWC EXHIBIT 1.00**

**DIRECT TESTIMONY OF**

**KARLA O. TEASLEY**

---

**ILLINOIS-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY  
OF  
KARLA O. TEASLEY**

**EXHIBIT NO. 1.00**

**I. WITNESS IDENTIFICATION AND BACKGROUND**

**Q1. Please state your name.**

**A.** My name is Karla O. Teasley.

**Q2. Please state your business address.**

**A.** 300 North Water Works Drive, Belleville, Illinois 62223.

**Q3. By whom are you employed and in what capacity?**

**A.** I am employed by Illinois-American Water Company ("IAWC" or "Company"), and serve as President of the Company.

**Q4. Please summarize your education and employment history.**

**A.** I hold a bachelor's degree from the University of Wisconsin (Eau Claire) and a Juris Doctor from the University of Minnesota Law School. I am a member of the bar in Minnesota and Florida, currently on inactive status in both states. I have been President of the Company since January 2007. Since graduating from law school in 1983, I have held increasingly responsible positions in the public utility industry. Between 1983 and 1989, I was a staff attorney for Minnesota Power based in Duluth, Minnesota. From 1989 through 1997, I was Vice President, General Counsel, Secretary and Director of Florida Water Services, a privately owned water and wastewater utility based in Orlando, Florida. In addition to my duties as Secretary for the Board of Directors, I provided all in-house legal services for the utility including contracts, regulatory affairs (including rate and environmental regulation), human resources, bond issues, eminent domain and real property. From 1997 through January 2007, I was a Vice President of Louisville Water Company in Louisville, Kentucky. When I left that position, I had

this proceeding on April 18, 2007 which ordered the Company to undertake the commitments agreed to in the stipulation. The Commission also ordered IAWC to take certain steps with regard to record keeping and reporting, customer service and communication, hydrant inspection, and billing.

**Q27. Have you prepared information regarding the status of the compliance with the Docket 05-0681 requirements?**

**A.** Yes. IAWC Exhibit 1.03 shows each requirement of the Docket 05-0681 Order, and indicates the status of the Company's compliance with each such requirement.

#### **VII. INCENTIVE COMPENSATION**

**Q28. Has the Company proposed recovery of expense related to payments under an incentive compensation plan?**

**A.** No. In the Docket 07-0507 Order, the Commission denied recovery of incentive compensation expense due to the presence of a parent company financial trigger. In recognition of the Commission's concern as stated in Docket 07-0507, IAWC will not pursue rate recovery of this cost.

#### **VIII. DEMAND AND COST-OF-SERVICE STUDIES**

**Q29. Did the Commission establish other requirements in the Docket 07-0507 Order issued in the Company's last rate case?**

**A.** Yes. In the Docket 07-0507 Order, the Commission required IAWC to, in its next rate proceeding, perform a Demand Study and Cost of Service Study and address several matters related to the design of IAWC's rates. Also, in the Docket 08-0463 Order, the Commission initiated a rate design investigation

081783comi112009.wpd

**PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON**

At a session of the Public Service Commission of West Virginia, in the City of Charleston,  
on the 20th day of November 2009.

Case No. 08-1761-G-PC

HOPE GAS, INC., dba DOMINION HOPE,  
DOMINION RESOURCES, INC., and  
PEOPLES HOPE GAS COMPANIES, LLC,

Joint petition for consent and approval of the  
purchase and sale of the common stock of Hope  
Gas, Inc., and related relief.

Case No. 08-1783-G-42T

HOPE GAS, INC., dba DOMINION HOPE,  
a private utility, Clarksburg, Harrison County.

Rule 42T application to increase gas rates and  
charges.

**COMMISSION ORDER ON THE REQUEST  
FOR INCREASED RATES AND CHARGES**

Staff recommended calculating bad debt by using a three-year average from the years 2005-2007, yielding an uncollectible rate of 2.475%. Staff also adjusted the revenue amount applied to the uncollectible rate, but accepted a revised allowance for bad debt from Richwood Hospital. Staff Ex. 6A at 18-21.

The Commission agrees with the use of a three-year average to determine a reasonable going level uncollectible rate. We note that the use of a three-year average is consistent with prior precedent for calculating the amount of uncollectible accounts. 2008 WVAWC Order at 56-57. The average rate proposed by the CAD and Staff are nearly identical. The Commission is not convinced, however, that Hope will be able to collect the expenses from the Richwood Hospital in the bankruptcy proceeding. The Commission finds that the prudent course is for Hope to file a bankruptcy claim in the Richwood Hospital proceeding, but allow the revised three-year amortization of \$270,707 in the Commission revenue requirement calculation. Because the Staff calculations include the \$270,707, we will adopt Staff's calculation of going level uncollectibles. The Commission refuses to penalize Hope for providing service to a community hospital despite its financial difficulties, but in the future Hope should take reasonable steps to recover its losses including, at a minimum, filing a bankruptcy claim. In the event that Hope recovers all or part of the amounts owed in the bankruptcy proceeding, the Commission may adjust the amortization in a future rate case. In addition, that recovery may affect net write-offs to reduce average uncollectibles allowed in future cases.

#### 6. Out of Period Gasoline

Hope included \$125,538 in gasoline expenses in its calculation that it incurred outside of the test year. Staff and CAD each recommended that the Commission remove that amount from its calculation. Staff Ex. 6A at 21 and CAD Ex. At 43-44. Hope justified retaining the gasoline expenses in its calculation on price volatility. *Id.* The Commission notes that gasoline expenses have shown instability in the past few years, but more recently prices have stabilized. The Commission believes that there is a sufficient basis to adjust the cost actually incurred during the test year, but finds that allowing gasoline expenses within the cost of service calculation from outside the test year distorts the expenses Hope incurred. The Commission accepts the recommendation from Staff and CAD to remove the out of period gasoline expenses of \$125,538.

#### 7. Payroll and Benefit Expenses

##### a. Initial Positions

In its initial filing, Hope annualized actual salary figures from March 2008, the last month of the test year. Hope adjusted its annualized salary figures to include a base pay increase for salaried employees, union contract increases and incentive compensation for non-union employees. Hope Ex. 12 at 7. Hope also made adjustments to its revenue requirement calculations for various benefit cost increases, including medical, dental and insurance plans. *Id.* at 8.

CAD initially recommended a series of adjustments reducing the Hope calculations to reflect a lower employee count and a different approach to incentive compensation. CAD Ex. 9 at 54-59. CAD also initially suggested reversing an adjustment Hope made to OPEB expenses of \$33,440. Id. at 75-76.

Staff submitted a separate employee salary and benefit calculation based on an annualization of actual salary figures from February 2009, instead of March 2008. Staff calculated a gross annual base payroll of \$10,416,236 instead of the Hope figure of \$10,864,102. Staff Ex. 6A at 6. Staff then apportioned the gross payroll, with 14.26% assigned to capital accounts and 85.74% to O&M accounts, yielding a final Staff recommendation of \$8,930,881 in cost of service. Id. at 7.

Staff recommended rejecting a vacation accrual credit of \$92,680 (expensed to \$79,464) because it presented updated payroll figures from the Hope numbers. Id. Staff also recommended rejecting any further payroll adjustment for merit increases beyond that included in the February 2009 payroll numbers as speculative, eliminating \$93,479 (expensed to \$80,149). Id. at 7-8. Hope initially included a recommendation for a scheduled union contract increase on April 1, 2009 of \$297,832, but Staff calculated that increase at \$278,099, removing \$19,733 (expensed to \$16,919) from its calculation. Staff also included a prior union progression in its updated payroll calculation mooted an adjustment of \$9,818 (expensed to \$8,418). Id. at 9.

Staff also recommended reducing the FICA adjustment Hope proposed, arguing that Hope overstated its costs because not all employee salary is subject to employment taxes and other Hope salary calculations are inconsistent with its adjustment. Staff recommended adjusting going level FICA expenses by only \$20,858 instead of \$157,182. Staff also recommended reducing going level VEBA expenses for Hope by an additional \$16,913 to account for the updated payroll. Id. at 14. Finally, Hope proposed adjustments for a series of employee benefits including medical, dental, life insurance, savings plans and other miscellaneous benefits.<sup>4</sup> Id. at 15-17. Staff recommended reducing the combined Hope adjustment for these benefits of \$774,668 by \$271,666 for a total Staff recommended adjustment of \$503,002. Staff noted that its numbers were based on costs from 2009 while Hope derived its estimates from 2007 projections. Id.

Staff also recommended that the Commission reject the inclusion of a portion of the Hope incentive compensation program. Hope included an adjustment of \$366,823 in its payroll calculations for a three-year average of employee bonuses. The bonus program is based partially on corporate earnings goals and partially on operational goals for non-officers and solely earnings based for corporate officers. Id. at 9-11. Staff recommended reducing the bonus adjustment to a proportion of the goals Staff argued is operationally related, 35%, yielding a reduced adjustment of \$128,388. Staff also recommended rejecting a separate bonus category for corporate officers contained in expenses charged by the affiliated service company. Id. at 12. That charge is discussed at Section IV. E.14 below.

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<sup>4</sup> A discussion of the pension credit that Hope also included in this adjustment is discussed separately in Sections IV. D. 11 at IV. E. 2 above.

b. Payroll and Benefit Expenses - Agreement of the Parties

The parties subsequently agreed to most of the Staff proposal for calculating Hope payroll and benefit costs. In rebuttal testimony, Hope announced that it agreed with using payroll from February 2009 instead of the March 2008 figures Hope initially filed. Hope Ex. 10 at 2. Hope noted that using the Staff payroll calculation included the adjustment for a union progression Hope initially proposed and stated that the updated payroll figures eliminated the need for a vacation adjustment. *Id.* at 5-6. Hope also adopted the Staff figures on its VEBA adjustment and the calculations for benefits including medical, dental, life insurance, savings plans and miscellaneous benefits. *Id.* at 7-8. Finally, Hope also adopted the Staff FICA adjustment. Hope Ex. 14 at 13. Hope disagreed, however, with the method Staff recommended for handling annual bonus pay with an updated adjustment of \$330,017, and sought merit raises for non-officer salary employees for 2009. Hope Ex. 10 at 4, 6.

At hearing, CAD announced that it accepted the Staff proposal using February 2009 payroll calculations and associated benefit cost calculations. Tr. Vol. I at 110. CAD also decided to withdraw its recommendation to reverse a \$33,440 adjustment Hope made to OPEB expenses. *Id.* at 111.

Based on the testimony summarized above, the parties reached agreement on most payroll and benefit issues, adopting the Staff calculations annualizing February 2009 Hope payroll. The Commission accepts the recommendation of the parties on these issues and includes the February 2009 payroll and Staff adjustments on the agreed payroll issues into its cost of service calculation.

c. Merit Pay Increases

Hope continued to advocate for merit increases for its non-officer salary employees for 2009, characterizing the \$84,099 increase as a known and measurable change. Hope Ex. 10 at 6.

Staff, however, objected on the basis of a recent Commission decision denying a request to include similar non-officer salary expenses into the cost of service calculations because of the current economic climate. Staff Initial Brief at 14-16 and 2008 WVAWC Order at 51. CAD also opposed any additional merit increase based on the current economic climate, citing the same order. CAD Initial Brief at 89-90.

The Commission continues to view merit increases for non-officer salary positions as being questionable during periods of economic hardship and high unemployment. These salary increases, although known and reasonable, do not meet a prudence test given the financial conditions we are facing. With continuing financial turmoil in the national and global economy, the Commission rejects the necessity for ratepayers to bear this expense and excludes the adjustment Hope proposed.

#### d. Incentive Compensation

Hope advocated for the Commission to include the cost of its incentive compensation programs for direct Hope employees, arguing that the incentive plan encourages employees to set and achieve scored goals. It noted that its 2009 incentive compensation was not included in the Staff calculation because those incentives took effect in March 2009. Hope Ex. 10 at 4. Hope urged the Commission to include an adjustment from the February 2009 payroll figures, adding an additional \$330,017 for incentive compensation.

CAD urged the Commission to divide financial responsibility for incentive compensation costs equally between ratepayers and Dominion shareholders through the calculation. CAD argued that both ratepayers and shareholders benefit from the fruits of incentive compensation and both parties should pay for those expenses. It asserted that there is no assurance from Hope of future bonus payments to employees. CAD Initial Brief at 85-89. Staff also recommended dividing the cost of the incentive compensation plan between ratepayers and shareholders, but recommended that shareholders pay 65% of cost because Staff believed that 65% of the incentive goals tracked earnings goals instead of operations goals. Staff Ex. 6A at 11.

On the current record before us, the Commission finds that the incentive plan benefits ratepayers by providing incentives to Hope employees to meet improved operational goals. The Commission declines the invitations from CAD and Staff to mathematically quantify the percentage of the effect that the incentive program benefits Dominion shareholders versus ratepayers. As shown by the record in this matter and Hope arguments, emphasis from incentive goals shifts over time in response to differing priorities. The Commission will continue to allow the incentive program in its calculation, adopting Hope's adjustment of \$330,017.

#### 8. Interest on Customer Deposits

CAD suggested an adjustment reducing going level rate base by \$47,302 and increasing O&M expense by \$18,054 to reflect interest payments on customer deposits. CAD justified the adjustments on the basis that Hope reduced its rate base calculation by the amount of its customer deposits. CAD also noted that the Commission recently established a 1.00% interest rate on customer deposits in General Order 185.30. CAD Ex. at 60-61. No party raised an objection to the CAD adjustments.

The Commission adopts the CAD adjustments as a reasonable treatment to recognize the availability of customer deposits while compensating Hope for the cost of the capital it holds as customer deposits.

#### 9. Rent Expenses

The parties initially disagreed over an adjustment Hope made regarding expenses for facilities Hope uses in Weston and Clarksburg. Staff initially recommended an adjustment of \$123,896 that included a new lease for the Clarksburg facility but excluded any costs for a Weston facility. Staff Ex. 6A at 22. CAD also recommended removing any cost allowance for the Weston facility and

to justify. While CAD recommended against including 100% of the local dues, it recommended retaining 60% of AGA dues. CAD justified the split on AGA dues with an audit from the National Association of Regulatory Utility Commissioners ("NARUC") showing that approximately 40% of AGA expenses are applied to uses such as lobbying, advocacy or promotional activities. Based on the NARUC audit, CAD recommended removing \$10,831 in AGA dues. Together with the reduction CAD recommended for local dues, it recommended a total reduction of \$24,214 in dues costs from the Commission cost of service calculation. CAD Ex. 9 at 70-74.

Hope objected to the CAD recommendation in rebuttal testimony, arguing that these local organizations provide contacts that assist in attracting and maintaining customers. It also argued that the AGA provides useful operational assistance, helps Hope by monitoring legislative development and promotes the natural gas industry. Hope Ex. 10 at 16-17.

The Commission adopts the CAD position regarding AGA dues. Splitting the cost between ratepayers and shareholders on the basis of the amount of AGA dues applied to functions related to delivery of natural gas is a reasonable allocation method. The Commission also agrees with CAD that Hope has not provided specific information to justify finding that dues in local chambers of commerce are a cost of providing natural gas service. The Commission reduces the Hope expenses for these items by \$24,214, including disallowance of local dues and 40% of Hope AGA dues.

#### 14. DRS Charges

CAD and Staff challenged a number of expenses Hope included in its going level expenses that Dominion Resources Services, Inc. ("DRS"), the Dominion service company, billed to Hope. CAD recommended disallowing eight separate categories of DRS charges totaling \$364,570 in costs including (i) 50% of incentive compensation to senior management provided through DRS, (ii) membership dues, (iii) lobbying expenses, (iv) public relations expenses, (v) charitable contributions, (vi) social club dues, (vii) corporate sponsored sporting events and (viii) \$134,979 in corporate aviation costs. CAD Ex. 9 at 77-78. CAD argued that the expenses, except for incentive compensation, are not required for providing gas service and do not benefit ratepayers. CAD Initial Brief at 100. CAD split the incentive compensation charge as a reflection of the shared benefit of incentive compensation to both shareholders and ratepayers. Staff also recommended that the Commission eliminate a similar list of expenses (except for aviation charges) for a total of \$378,831. Staff Ex. 13 at 16-17. Staff asserted that Dominion stockholders benefit from these expenses and therefore should bear them. Id.

Hope objected to the CAD and Staff recommendations regarding the protested DRS charges. Hope argued that the incentive compensation charges from DRS are a necessary part of the package Dominion uses to attract and retain talented executives. It defended the aviation charges as legitimate expenses that are individually charged on the basis of each flight. Hope justified the media expenses DRS charged, asserting that those expenses support the office within Dominion that maintains copies of current tariffs and prepares bill inserts, including any required by Commission rules. Hope Ex. 13 at 16-17. Hope did not specifically address the recommendations regarding expenses including social club dues and sports tickets. See, Case file generally.

The Commission believes that these costs from DRS are not directly related to Hope providing reliable natural gas service to its customers. The Commission fails to see how membership dues, social club dues and sports tickets substantially enhance service to customers. Evidence in the record regarding corporate aviation charges is also insufficient to justify including those expenses in the revenue requirement calculations. The Commission is also not convinced that Dominion lobbying efforts benefit Hope ratepayers and agrees with the recommendation to disallow those costs.

The Commission has no desire to dissuade Hope or any utility from making reasonable charitable contributions to the communities they serve, but believes that charitable donations are a cost that should be borne by shareholders who can influence decisions regarding support to charitable organizations, and not by ratepayers that have no say in those decisions. The Commission will not accept the DRS charges for charitable contributions to Hope. The Commission notes that it distinguishes the Targeted Gas Energy Efficiency Program ("T/GEEP") from other charitable contributions and discusses that program separately below.

Hope did make a brief reference in testimony regarding the use of media expenses, noting that the recipient of those costs maintain current tariffs and prepare bill inserts. The record does not indicate, however, any specific benefits of those fees, and the Commission views any DRS costs associated with maintaining current tariffs skeptically. The Commission cannot accept DRS charges for media affairs based on the record.

The Commission accepts the Staff recommendation regarding incentive compensation expenses for senior management charged by DRS to Hope. As noted by Mr. McKeown, Hope has no senior management of its own and relies on DRS to provide those functions. While the Commission is sympathetic to the desires of Hope to attract and retain talented employees, Hope executives should consider the current economic climate in their bonus requests. As discussed above regarding merit increases for other salary employees, the Commission cannot justify bonus costs for Hope executives in the midst of protracted economic turmoil. The Commission disallows the DRS charges listed above removing \$378,831 Staff recommended plus \$134,979 in aviation costs for a total of \$513,810 from the cost of service calculations.

#### 15. Adjustments for Hope Addendum

CAD recommended a net adjustment reducing expenses by \$2,096 to account for the tax implications of removing the post test year additions to rate base in the addendum to Statement B discussed above in the rate base section. CAD Ex. 9 at 80 and CAD Initial Brief at 102. Similarly, Hope requested adjustments to reflect the addendum additions it proposed including \$867,123 for depreciation, depletion and amortization expenses related to including the addendum plant in rate base and \$145,274 adjustment to tax expenses. Hope Initial Brief at 41. The Commission adopts the CAD adjustment to synchronize the cost of service as consistent with its decision to exclude the post test year addendum items from rate base consideration and denies the Hope adjustments on similar grounds.

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343; SW-01303A-09-0343

**Response provided by:** Tom Broderick

**Title:** Director, Rates & Regulation

**Address:** 2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027

**Company Response Number:** RUCO 7-1

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- Q. Pension expense from affiliates. Refer to AAWC's response to RUCO 2-61. (a) Please explain the unusually large charge in December 2006 of \$1,304,179 for Account 506100, Pension, from the affiliated Service Company. (b) Please provide the journal entries, and journal entry support, for the affiliated Service Company charges to Account 506100, Pensions for December 2006. (c) Was the unusually large charge in December 2006 of \$1,304,179 for Account 506100, Pension, from the affiliated Service Company addressed in any prior AAWC rate case? If not, explain fully why not. If so, please identify the specific rate cases in which this was addressed, and explain how it was addressed.
- A: a) This is when the Service Company began to bill pension cost based on FAS 87 instead of ERISA. For an ERISA state such as AZ, there was an offsetting debit to expense and credit to a regulatory asset for the difference between accruals (FAS 87) and contributions (ERISA).
- b) Please see Attachment RUCO 7-1 Pension Expense from Affiliates.xls. The \$1,304,179 balance in account 506100 for December 2006 as shown on AAWC's response to RUCO 2-61 includes the standard monthly Pension entry as well as the \$1,274,913 transition entry. The journal entry is displayed on the Pension JE tab of the attachment.
- c) AAWC has remained an ERISA state for ratemaking purposes. For AAWC, the issue has not been revisited since the ACC's 1993 Decision No. 58419. AAWC continues to debit a regulatory asset for the on-going difference between pension accruals and contributions.

**BARRON'S**  
ONLINE

| TUESDAY, FEBRUARY 16, 2010

Investors' Soapbox AM

## Consolidation to Drive Water-Sector Growth

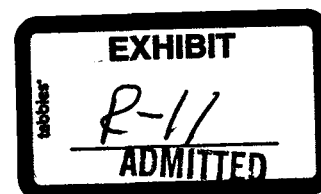
*Hilliard Lyons says municipalities will seek to monetize assets.*

Hilliard Lyons

WE RECENTLY INITIATED coverage of American Water Works (Ticker: AWK) with a Buy rating. We view the company as an attractive total-return story with meaningful earnings-growth potential coupled with a 3.9% dividend yield.

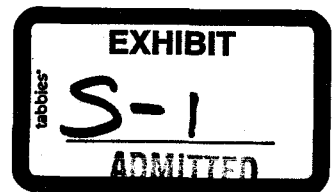
American Water Works is the biggest player in the space, and actually larger than the rest of the group combined providing over 5% of the U.S. with drinking water. The company has monopoly-like status, with a nonregulated-lever to grow earnings. We anticipate consolidation being a meaningful driver of growth in the industry, and believe American Water Works will be one of the major players.

Additionally, ...



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**MINUTES OF REGULAR MEETING OF THE  
BOARD OF DIRECTORS OF  
ARIZONA-AMERICAN WATER COMPANY**

Held at The University Club, Sefton Library, 750 B Street, Suite 3400, San Diego, California, and via videoconference at 1025 Laurel Oak Road, Voorhees, New Jersey, on Monday, July 18, 2005, at 9:30 A.M. PDT.

**Directors Present:**

R.D. Bloor  
H.M. Duque  
D.L. Georgeson  
R.J. Kuta  
P.G. Townsley

**Directors Absent:**

J.D. McGivern

**Also Present:**

P.A. Lyman, Secretary  
K.A. Tilden  
B.K. Turner  
Bob Waters via telephone

Mr. Townsley, President of the Company, called the meeting to order and served as Chairman of the meeting. Ms. Lyman, Secretary of the Company, recorded the minutes of the meeting.

Mr. McGivern having given notice that he was unavailable for the meeting, the remaining directors waived notice of the time change and agreed to commence the meeting early.

The minutes of the meeting of the Board of Directors held on April 11, 2005, were presented to the meeting and, upon motion duly made, seconded and carried, the following resolution was adopted:

***Resolved, that the minutes of the meeting of the Board of Directors of this Company, held on April 11, 2005, and the same hereby are approved in the form presented at this meeting.***

The Board considered a declaration of a cash dividend to shareholders and concluded that financial performance for the second quarter 2005 does not warrant payment of a quarterly dividend.

Mr. Bloor then reported on the financial performance of the Company and a brief discussion ensued. Operations results improved, although wet weather had pushed demand down, demand has increased as the hotter months began. Free cash flow is ahead of plan due to slowed capital spending, which is itself due to wet weather and zoning issues which have affected the completion of the arsenic programs. The earnings stream is close to plan (\$200,000 below) but year-end

results are expected to be slightly ahead of plan. Value contribution is a negative \$20,000,000 due in large part to rate case lag.

Mr. Kuta reported on operational issues facing the Company. The White Tanks Regional Water Treatment plant plan project is in the contracting phase; negotiations continue with Maricopa County on the many appurtenant contracts. The design and construction team is standing by. The Arizona Corporations Commission has been briefed and there will be a filing this month.

Due to winter rains, conservation measures are not anticipated at this time.

The Service First program is starting shortly and will be managed out of a service center in Thousand Oaks, CA.

A neighborhood group, BuryTheTanks, has filed a complaint to stop the construction of certain tanks in Paradise Valley near the City of Scottsdale which are associated with the arsenic treatment project. The plaintiffs are asking the Company to bury the tanks. The project costs \$16,500,000 project, which already includes spending \$1,000,000 for aesthetics. The plaintiffs are asking for another \$2,500,000 of alleged aesthetic improvements.

The arsenic treatment program in the City of Tubac is waiting for the Arizona Department of Environmental Quality decision on Point-of-Use treatment technology. If that technology can be used in Tubac, the initial cost savings will be significant. Point-of-Use requires ongoing operations and maintenance costs that are higher than the ongoing costs of a centralized treatment project.

The engineering function and the operations staff are geared up to optimize the installation of the arsenic treatment units and to improve time of recovery of the costs in rate base.

The development of the Anthem community is accelerating as new homes are coming on line quicker than anticipated. This could move up the date of required refunds of development fees due to the developer into 2007. In this community, 100% of development costs have to be refunded to the developer as there was great competition to win the project. Usually about 50% of development costs go into the cost of the homes. Now that all of the developer costs will be showing up in rates, the residents have expressed concern about rising rates.

Next, Mr. Bloor reported on recent regulatory developments. We will be using a surcharge to recover the costs of arsenic treatment which will hasten return.

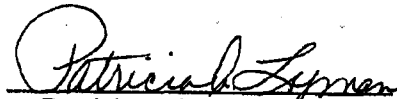
Mr. Turner reported on new business developments. The Company has been investigating a new technology for arsenic treatment which does not have a waste stream that goes into the environment. The waste product removed from the water is shipped back to the vendor of the process for disposal.

stream that goes into the environment. The waste product removed from the water is shipped back to the vendor of the process for disposal.

Mr. Townsley reported on the dates for future meeting in 2005:

Monday, October 10, 2005 at 11:00 AM MDT in Phoenix, AZ; and  
Monday, December 12, 2005 at 12:00 PM PST in San Diego, CA.

After a general discussion of the Company and, upon motion duly made, seconded and unanimously adopted, the meeting was adjourned at 10:20 A.M.

  
Patricia A. Lyman, Secretary

CITIZENS UTILITIES COMPANY  
VILLAGES AT DESERT HILLS -- PROFORMA PROJECTIONS

SUMMARY  
Page 1 of 5

VDH MODEL -- FINAL

CONTROL SHEET FOR "MODEL CHANGES"

10/10/97  
05:20 PM

(\$ in Thousands)

[1] [2] [3] [4] [5] [6] [7] [8] [9]

LINE #	DESCRIPTION	RESULTS OF OPERATIONS		INPUT DATA		INPUT DATA		PERCENTAGE RATE INCREASE COMPOUNDED ANNUAL FROM 1999
		DISTCO	TREATCO	CHARGES FOR TREATMENT	CAPACITY CHARGE / CUSTOMER / SERVICE	REFUND FROM TREATCO	MONTHLY RATE / BILL FOR 5/8" METER CUSTOMER	

AT BEGINNING OF PROJECT

1 TOTAL MONTHLY CHARGE -- RESULT OF INITIAL RATES

2 NUMBER OF CUSTOMERS ADDED PER YEAR

3 MONTHLY PER "M" GALLON CONSUMPTION CHARGE -- WATER

4 MONTHLY PER "M" GALLON TREATMENT CHARGE -- WASTEWATER

WITH EFFECTIVE DATES OR PERIODS

YEAR

1998

5	1,999	-132.28%	17.18%	\$ 0.335	\$ 0.500	\$ 5.000	\$ 70.00	700	14.50%	14.50%
6	2,000	-35.52%	31.21%	0.1250			\$ 2.00			\$ 80.15
7	2,001	21.42%	15.85%	0.1250			\$ 2.00			
8	2,002	28.30%	11.82%							
9	2,003	19.19%	10.41%							
10	AVERAGE FOR FIRST FIVE YEARS	16.80%	13.33%							
11	2,004	13.47%	13.91%	21.0%	130%	\$ 0.800				
12	2,005	12.76%	12.53%							
13	2,006	9.84%	12.08%							
14	2,007	8.47%	11.23%							
15	2,008	8.92%	15.11%							
	AVERAGE	10.20%	12.99%							
16	2,009	11.92%	13.19%	21.5%	110%	\$ 0.300				
17	2,010	11.24%	13.01%							
18	2,011	9.68%	13.13%							
19	2,012	8.54%	14.55%							
20	2,013	9.48%	10.16%							
	AVERAGE	10.18%	12.53%							
21	2,014	10.68%	14.28%	32.0%	0%	\$ -				
22	2,015	10.04%	11.55%							
23	2,016	9.36%	11.62%							
24	2,017	8.96%	12.05%							
25	2,018	8.27%	13.11%							
26	2,019	9.39%	12.51%							
	AVERAGE									

VDHMODEL.xls  
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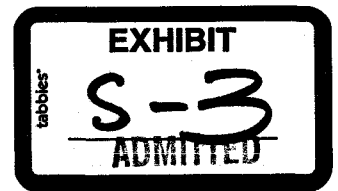




LINE #	DESCRIPTION	REFERENCE	(1) 2009	(2) 2010	(3) 2011	(4) 2012	(5) 2013	(6) 2014	(7) 2015	(8) 2016	(9) 2017	(10) 2018
1	AVERAGE # OF CUSTOMERS	SCH. D	8,119	8,931	9,743	10,555	11,365	12,162	12,558	12,558	12,558	12,558
2	% RATE INCREASE OVER 1999 RATES		37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%
3	WATER SERVICES	SCH. F	\$4,088	\$4,497	\$4,806	\$5,114	\$5,422	\$5,730	\$6,038	\$6,346	\$6,654	\$6,962
4	WASTEWATER SERVICES	SCH. G	3,107	3,416	3,729	4,040	4,352	4,664	4,976	5,288	5,600	5,912
5	RATE INCREASE AT % SHOWN		2,691	2,960	3,229	3,499	3,761	4,023	4,285	4,547	4,809	5,071
6	OTHER											
7	TOTAL REVENUES		9,886	10,876	11,854	12,854	13,817	14,780	15,743	16,706	17,669	18,632
8	OPERATING EXPENSES											
9	PURCHASED WATER	SCH. N	3,995	4,394	4,794	5,193	5,593	5,993	6,393	6,793	7,193	7,593
10	WASTEWATER TREATMENT	SCH. N	3,995	4,394	4,794	5,193	5,593	5,993	6,393	6,793	7,193	7,593
11	OTHER		0	0	0	0	0	0	0	0	0	0
12	TOTAL OPERATING EXPENSES	SCH. H	1,032	1,114	1,257	1,348	1,439	1,530	1,621	1,712	1,803	1,894
13	DEPRECIATION (Avg. L 22 * Rate)		9,021	9,902	10,854	11,735	12,596	13,457	14,318	15,179	16,040	16,901
14	AMORTIZATION OF CIAC (Avg. L 32 * Rate)	3.00%	449	497	547	598	650	703	756	809	862	915
15	TAXES OTHER THAN INCOME (L 22 * Rate)	2.00%	-278	-302	-328	-354	-381	-408	-435	-462	-489	-516
16	TOTAL EXPENSES BEFORE INCOME TAXES	1.00%	9,400	10,321	11,315	12,339	13,143	13,999	14,855	15,711	16,567	17,423
17	INTEREST EXPENSE (L 34 * Rate)	3.00%	81	99	116	133	147	165	184	203	222	241
18	TAXABLE INCOME		405	455	432	481	527	573	619	665	711	757
19	INCOME TAX EXPENSE (L 18 * Rate)	40.00%	162	182	173	193	211	233	255	278	301	324
20	TOTAL EXPENSE		9,562	10,503	11,488	12,432	13,354	14,282	15,210	16,139	17,068	17,997
21	NET OPERATING INCOME		\$324	\$372	\$375	\$421	\$463	\$501	\$545	\$587	\$629	\$673
22	PLANT IN SERVICE	SCH. B	\$15,759	\$17,368	\$19,073	\$20,789	\$22,536	\$24,310	\$26,119	\$27,963	\$29,841	\$31,753
23	C.W.I.P.		403	412	421	430	439	445	450	455	460	465
24	ACCUMULATED DEPRECIATION (L 13 * Prior Year)		-2,466	-2,933	-3,510	-4,108	-4,758	-5,461	-6,197	-6,940	-7,683	-8,426
25	NET PLANT		13,696	14,847	15,984	17,111	18,217	19,294	20,366	21,423	22,478	23,533
26	CUSTOMER ADVANCES - 50%	SCH. M	-7,987	-8,803	-9,636	-10,485	-11,352	-12,235	-13,135	-14,054	-14,983	-15,922
27	REFUND OF C/A - SUBDIVISION - Years	12	4,054	4,944	5,834	6,724	7,577	8,455	9,307	10,154	11,000	11,846
28	N/A		0	0	0	0	0	0	0	0	0	0
29	N/A		0	0	0	0	0	0	0	0	0	0
30	DEFERRED INCOME TAXES	SCH. K	-331	-397	-470	-549	-635	-728	-826	-925	-1,024	-1,123
31	CIAC	50%	-7,987	-8,803	-9,636	-10,485	-11,352	-12,235	-13,135	-14,054	-14,983	-15,922
32	AMORTIZATION OF CIAC (L 14 * Prior Year)		1,270	1,522	1,790	2,100	2,428	2,781	3,148	3,516	3,883	4,250
33	OTHER											
34	RATE BASE		\$2,716	\$3,311	\$3,875	\$4,417	\$4,984	\$5,572	\$6,155	\$6,737	\$7,319	\$7,901
35	EARNED RATE OF RETURN		11.92%	11.24%	9.60%	9.54%	9.48%	10.68%	10.04%	9.36%	8.96%	8.27%

LINE #	DESCRIPTION	REFERENCE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
			1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	NUMBER OF CUSTOMER MOVES		405	1,218	2,030	2,642	3,654	4,455	5,275	5,090	5,502	7,715
2	AVERAGE # OF CUSTOMERS	SCH. D	202	811	1,623	2,435	3,242	4,059	4,871	5,583	6,495	7,307
3	% RATE INCREASE OVER BASE YEAR 2000 RATES											
REVENUES												
4	WATER SERVICES	DISTCO	34	271	544	815	1,089	1,543	1,972	2,301	2,630	2,959
5	WASTEWATER SERVICES	DISTCO	34	271	544	816	1,089	1,543	1,972	2,301	2,630	2,959
6	GOLF COURSE IRRIGATION		72	293	295	299	302	305	308	665	667	670
7	CAPACITY RESERV. CHG.-WATER	Data Sheet	203	406	406	405	405	404	934	934	934	1,961
8	CAPACITY RESERV. CHG.-W/W	Data Sheet	203	406	406	405	406	934	934	934	934	1,961
9	TOTAL REVENUES		546	1,546	2,195	2,743	3,291	5,460	6,121	7,135	7,795	10,510
OPERATING EXPENSES												
10	N/A											
11	N/A											
12	OTHER											
13	OPERATING EXPENSES	SCH. I	141	291	376	454	563	629	847	1,078	1,270	1,344
14	TOTAL OPERATING EXPENSES		141	291	376	454	563	629	847	1,078	1,270	1,344
15	DEPRECIATION	SCH. J	12	85	142	251	386	513	659	870	1,124	1,325
16	TAXES OTHER THAN INCOME (L 23 * Rate)	1.00%	315	354	380	482	513	545	587	695	755	763
17	TOTAL EXPENSES-BEFORE INCOME TAXES		488	710	898	1,187	1,462	1,687	2,093	2,643	3,149	3,432
18	INTEREST EXPENSE (L 34 * Rate)	3.00%	9	56	160	254	357	535	640	743	834	916
19	TAXABLE INCOME		69	882	1,138	1,292	1,472	3,230	3,385	3,750	3,813	6,162
20	INCOME TAX EXPENSE (L 19 * Rate)	40.00%	27	353	455	517	589	1,295	1,355	1,500	1,525	2,465
21	TOTAL EXPENSE		495	1,063	1,353	1,704	2,051	2,982	3,448	4,143	4,674	5,897
22	NET OPERATING INCOME		551	585	843	1,039	1,240	2,478	27,673	32,993	33,122	34,613
RATE BASE												
23	PLANT IN SERVICE	SCH. C	\$31,450	\$35,419	\$37,952	\$48,216	\$51,262	\$54,523	\$58,720	\$68,459	\$75,491	\$76,298
24	C.W.I.P.		1,264	251	214	936	197	286	304	968	471	31
25	ACCUMULATED DEPRECIATION (L 13 + Prior Year)		-12	-77	-219	-470	-856	-1,369	-2,028	-2,898	-4,022	-5,347
26	NET PLANT		32,712	35,593	37,957	48,682	50,603	53,440	57,056	67,539	71,940	70,987
27	ADVANCED FUNDS	SCH. M	-31,908	-34,730	-37,181	-47,902	-50,119	-53,394	-57,572	-68,548	-74,011	-74,346
28	REPAYMENT-PART # 1	\$5,000		2,030	6,090	10,150	14,210	18,270	22,330	26,390	30,450	34,510
29	REPAYMENT-PART # 2	\$0,800						2,923	3,573	4,222	4,872	5,522
30	REPAYMENT-PART # 3	\$0,300										
31	REPAYMENT-PART - TRUE-UP											
32	DEFERRED INCOME TAXES											
33	WORKING CAPITAL & OTHER											
34	RATE BASE		\$294	\$1,874	\$5,317	\$8,792	\$11,915	\$17,819	\$21,325	\$24,764	\$27,802	\$30,535
35	RATE OF RETURN		17.18%	31.21%	15.85%	11.82%	10.41%	13.91%	12.53%	12.08%	11.23%	15.11%
VOHMODEL.xls												
VEATCOO_P1 (KA121.AZ160)												
												12.95%





BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
PAUL NEWMAN  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, )  
AN ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES BASED THERON )  
FOR UTILITY SERVICE BY ITS ANTHEM )  
WATER AND SUN CITY WATER DISTRICTS )

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY, )  
AN ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES BASED THERON )  
FOR UTILITY SERVICE BY ITS ANTHEM/ )  
AGUA FRIA WASTEWATER, SUN CITY )  
WASTEWATER AND SUN CITY WEST )  
WASTEWATER DISTRICTS )

DOCKET NO. SW-01303A-09-0343

DIRECT  
TESTIMONY  
OF  
JUAN C. MANRIQUE  
PUBLIC UTILITIES ANALYST I  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

MARCH 8, 2010

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**EXECUTIVE SUMMARY**  
**ARIZONA-AMERICAN UTILITIES INC.**  
**DOCKET NOS. W-01303A-09-0343 AND SW-01303A-09-0343**

The direct testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Arizona-American Water Company (“Company”) for this proceeding consisting of 61.14 percent debt and 38.86 percent equity. Staff’s capital structure includes short-term debt excluded by the Company.

Cost of Equity – Staff recommends that the Commission adopt a 10.7 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on cost of equity estimates for the sample companies ranging from 9.7 percent for the discounted cash flow method (“DCF”) to 10.0 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 0.8 percent upward adjustment to reflect a higher financial risk in the Company’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.2 percent overall rate of return (“ROR”).

Dr. Villadsen’s Testimony – The Commission should reject the Company’s proposed 12.25 percent ROE for the following reasons:

Dr. Villadsen’s DCF estimates rely exclusively on analyst’s forecasts, do not consider dividend per share growth, omit relevant water utility sample data and include a methodology that uses ROE as a dependent variable that is derived by inappropriately equating the sample companies’ market value capital structure weighted average costs of capital after-tax to the Company’s book value capital structure weighted average cost of capital after-tax.

1     **I.       INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona  
4           Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").  
5           My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Briefly describe your responsibilities as a Public Utilities Analyst.**

8     A.     In my position as a Public Utilities Analyst, I perform studies to estimate the cost of  
9           capital component in rate filings to determine the overall revenue requirement and analyze  
10          requests for financing authorizations.

11  
12    **Q.     Please describe your educational background and professional experience.**

13    A.     I graduated from Arizona State University and received a Bachelor of Science degree in  
14           Finance. My course of studies included courses in corporate and international finance,  
15           investments, accounting, statistics, and economics. I began employment as a Staff Public  
16           Utilities Analyst in October 2008. My professional experience includes two years as a  
17           Loan Officer with a homebuilder and as an Associate for an Investor Relations firm.

18  
19    **Q.     What is the scope of your testimony in this case?**

20    A.     My testimony provides Staff's recommended capital structure, return on equity ("ROE")  
21           and overall rate of return ("ROR") for establishing the revenue requirements for Arizona-  
22           American Water Company's ("Arizona-American" or "Company") pending water division  
23           and wastewater division rate applications.

1     **Q.     Please provide a brief description of Arizona-American.**

2     A.     Arizona-American is a public service corporation engaged in the provision of water and  
3           wastewater utility service in portions of Maricopa, Mohave, and Santa Cruz Counties. The  
4           Company currently serves approximately 100,000 water customers and 50,000 sewer  
5           customers in the state. Arizona-American is owned by American Water Works Company  
6           Inc. ("AWK"), which is publicly traded on the New York Stock Exchange. AWK  
7           provides regulated water and wastewater services in 20 states.

8

9     **Summary of Testimony and Recommendations**

10    **Q.     Briefly summarize how Staff's cost of capital testimony is organized.**

11    A.     Staff's cost of capital testimony is presented in ten sections. Section I is this introduction.  
12           Section II discusses the concept of weighted average cost of capital ("WACC"). Section  
13           III presents the concept of capital structure and presents Staff's recommended capital  
14           structure for Arizona-American in this proceeding. Section IV discusses the concepts of  
15           return on equity ("ROE") and risk. Section V presents the methods employed by Staff to  
16           estimate Arizona-American's ROE. Section VI presents the findings of Staff's ROE  
17           analysis. Section VII presents Staff's final cost of equity estimates for Arizona-American.  
18           Section VIII presents Staff's ROR recommendation. Section IX presents Staff's  
19           comments on the direct testimony of the Company's witness, Dr. Bente Villadsen.  
20           Finally, section X presents the conclusions.

21

22    **Q.     Have you prepared any exhibits to accompany your testimony?**

23    A.     Yes. I prepared nine schedules (JCM-1 to JCM-9) that support Staff's cost of capital  
24           analysis.

1 **Q. What is Staff's recommended rate of return for Arizona-American?**

2 A. Staff recommends a 7.2 percent overall ROR as shown in Schedule JCM-1. Staff's ROR  
3 recommendation is based on cost of equity estimates for Arizona-American that range  
4 from 9.7 percent using the discounted cash flow method ("DCF") to 10.0 percent using the  
5 capital asset pricing model ("CAPM"). Staff's ROR recommendation reflects a 0.8  
6 percent upward adjustment to the estimated ROE to account for a higher financial risk in  
7 the Company's capital structure compared to that of the sample companies.  
8

9 **Arizona-American's Proposed Overall Rate of Return**

10 **Q. Briefly summarize Arizona-American's proposed capital structure, cost of debt,**  
11 **return on equity and overall rate of return for this proceeding.**

12 A. Table 1 summarizes the Company's proposed capital structure, cost of debt, return on  
13 equity and overall rate of return in this proceeding:  
14

15 **Table 1**

	<b>Weight</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-term Debt	54.85%	5.5%	3.0%
Common Equity	45.15%	12.3%	5.5%
<b>Cost of Capital/ROR</b>			<b>8.5%</b>

16  
17 Arizona-American is proposing an overall rate of return of 8.5 percent.  
18

19 **II. THE WEIGHTED AVERAGE COST OF CAPITAL**

20 **Q. Briefly explain the cost of capital concept.**

21 A. The cost of capital is the opportunity cost of choosing one investment over others with  
22 equivalent risk. In other words, the cost of capital is the return that stakeholders expect

1 for investing their financial resources in a determined business venture over another  
2 business venture.

3  
4 **Q. What is the overall cost of capital?**

5 A. The cost of capital to a company issuing a variety of securities (i.e., stock and  
6 indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the  
7 relative amounts for each security in the company's entire capital structure. Thus, the  
8 overall cost of capital is the WACC.

9  
10 **Q. How is the WACC calculated?**

11 A. The WACC is calculated by adding the weighted expected returns of a firm's securities.  
12 The WACC formula is:

13 Equation 1.

14  
15 
$$WACC = \sum_{i=1}^n W_i * r_i$$
  
16

17 In this equation,  $W_i$  is the weight given to the  $i^{th}$  security (the proportion of the  $i^{th}$  security  
18 relative to the portfolio) and  $r_i$  is the expected return on the  $i^{th}$  security.

1    **Q.    Can you provide an example demonstrating application of Equation 1?**

2    A.    Yes. For this example, assume that an entity has a capital structure composed of 60  
3          percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0  
4          percent and the expected return on equity, i.e., the cost of equity, is 10.5 percent.  
5          Calculation of the WACC is as follows:

6          
$$\text{WACC} = (60\% * 6.0\%) + (40\% * 10.5\%)$$

7          
$$\text{WACC} = 3.60\% + 4.20\%$$

8          
$$\text{WACC} = 7.80\%$$

9  
10          The weighted average cost of capital in this example is 7.80 percent. The entity in this  
11          example would need to earn an overall rate of return of 7.80 percent to cover its cost of  
12          capital.

13  
14    **III.    CAPITAL STRUCTURE**

15    **Background**

16    **Q.    Please explain the capital structure concept.**

17    A.    The capital structure of a firm is the relative proportions of each type of security--short-  
18          term debt, long-term debt (including capital leases), preferred stock and common stock--  
19          that are used to finance the firm's assets.

20  
21    **Q.    How is the capital structure expressed?**

22    A.    The capital structure of a company is expressed as the percentage of each component of  
23          the capital structure (capital leases, short-term debt, long-term debt, preferred stock and  
24          common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by \$20,000 of capital leases, \$85,000 of long-term debt, \$15,000 of preferred stock and \$80,000 of common stock is shown in Table 2.

**Table 2**

Component			%
Capital Leases	\$20,000	(\$20,000/\$200,000)	10.0%
Long-Term Debt	\$85,000	(\$85,000/\$200,000)	42.5%
Preferred Stock	\$15,000	(\$15,000/\$200,000)	7.5%
Common Stock	\$80,000	(\$80,000/\$200,000)	40.0%
Total	\$200,000		100%

The capital structure in this example is composed of 0.0 percent short-term debt, 10.0 percent capital leases, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

#### **Arizona-American's Capital Structure**

**Q. What capital structure does Arizona-American propose?**

A. The Company proposes a capital structure composed of 54.85 percent debt and 45.15 percent common equity. The Company's proposed capital structure reflects projected amounts for equity and long-term debt and entirely excludes \$51,214,077 of actual short-debt at test year end.

1 **Q. How does Arizona-American's capital structure compare to capital structures of**  
2 **publicly traded water utilities?**

3 A. Schedule JCM-4 shows the capital structures of six publicly traded water companies  
4 ("sample water companies") as of June 2009. The average capital structure for the sample  
5 water utilities is comprised of approximately 50.2 percent debt and 49.8 percent equity.

6  
7 **Staff's Capital Structure**

8 **Q. What is Staff's recommended capital structure for Arizona-American?**

9 A. Staff recommends a capital structure composed of 61.14 percent debt and 38.86 percent  
10 equity.

11  
12 **Q. Why does Staff's recommended capital structure differ from the Company's**  
13 **proposed capital structure?**

14 A. Staff used updated information that represents preliminary December 31, 2009, amounts  
15 provided by the Company in response to Staff Data Request 13.1. The table below shows  
16 the updated capital structure provided to and adopted by Staff.

17  
18 **ARIZONA AMERICAN WATER COMPANY CAPITAL STRUCTURE**  
19

	<u>Amount outstanding as of 12/31/2009</u>	<u>Percentage of Capital Structure</u>
Long-Term Debt	\$177,530,205	44.55%
Short-Term Debt	\$66,094,877	16.59%
Total Debt	\$243,625,082	61.14%
Total Common Equity	\$154,855,430	38.86%
Total Capitalization	\$398,480,512	100.00%

1     **IV.     RETURN ON EQUITY**

2     **Background**

3     **Q.     Please define the term “cost of equity capital.”**

4     A.     The cost of equity is the rate of return that investors expect to earn on their investment in a  
5             business entity given its risk. In other words, the cost of equity to the entity is the  
6             investors’ expected rate of return on other investments of similar risk. As investors have a  
7             wide selection of stocks to choose from, they will choose stocks with similar risks but  
8             higher returns. Therefore, the market determines the entity’s cost of equity.

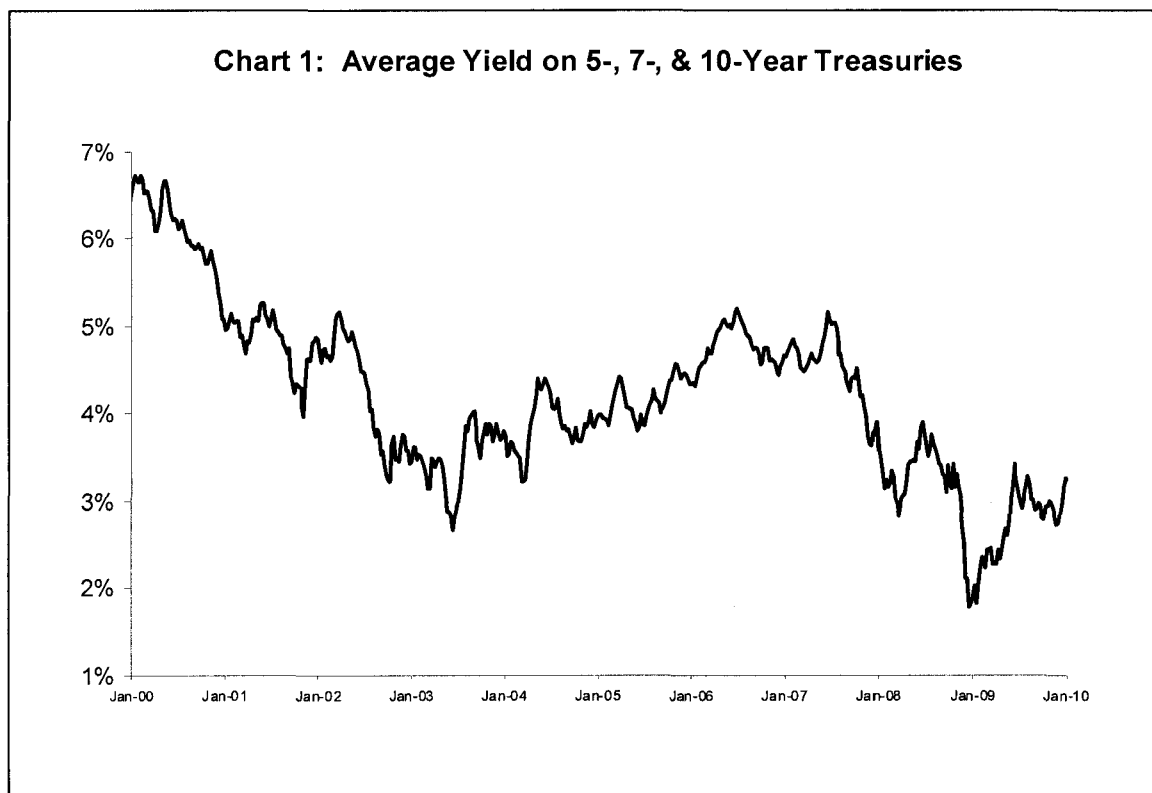
9  
10    **Q.     Is there a correlation between interest rates and the cost of equity?**

11    A.     Yes. The cost of equity tends to move in the same direction as interest rates. This  
12             relationship is part of the CAPM formula. The CAPM is a market-based model employed  
13             by Staff for estimating the cost of equity. The CAPM is further discussed in Section V of  
14             this testimony.

15  
16    **Q.     What has been the general trend of interest rates in recent years?**

17    A.     A chronological chart of interest rates is a good tool to show interest rate history and  
18             identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 2000 to  
19             January 2010.

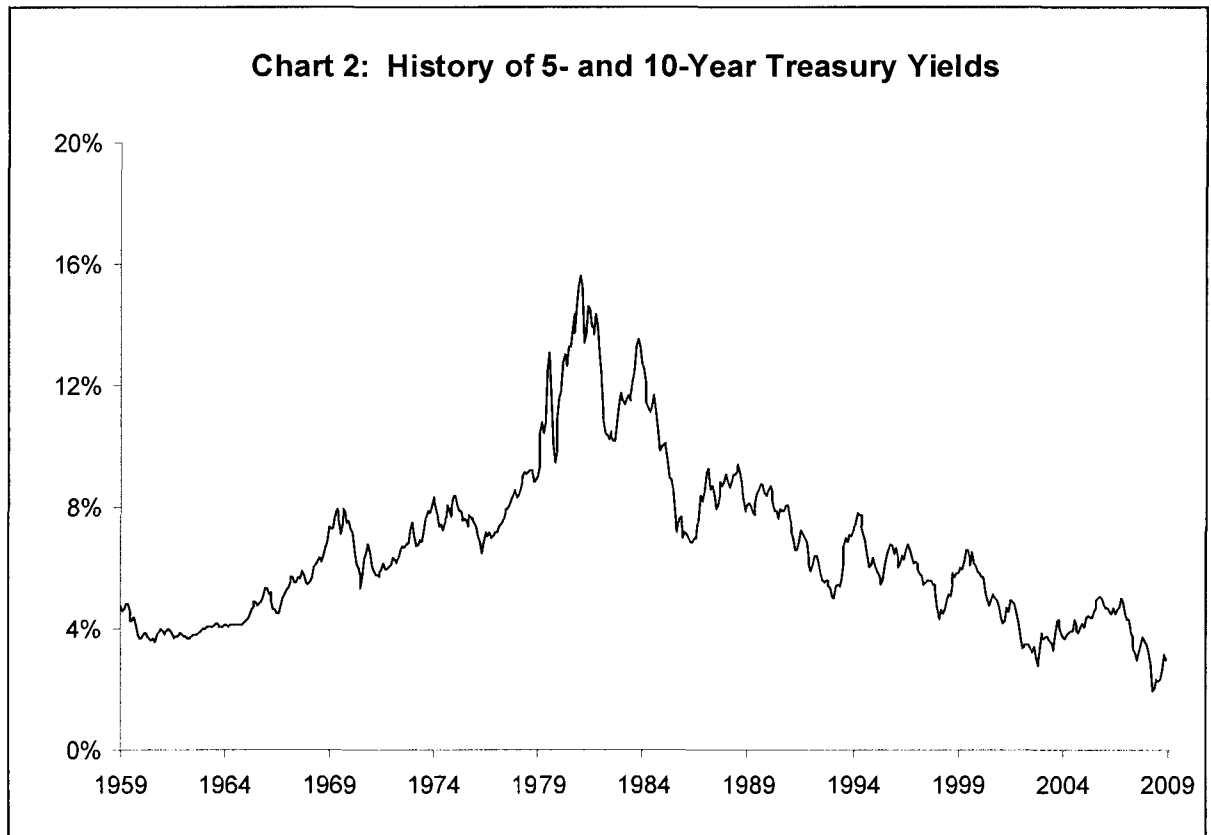
20



15 Chart 1 shows that intermediate interest rates trended downward from 2000 to mid-2003  
16 then turned slightly upward until mid-2007, trended downward through early-2009 and  
17 have trended upward in the past year.

18  
19 **Q. What has been the general trend in interest rates longer term?**

20 A. U.S. Treasury rates from 1959 to present are shown in Chart 2. The chart shows that  
21 interest rates trended upward through the mid-1980s and have trended downward over the  
22 last 25 years.



15  
16 **Q. Do these trends suggest anything in terms of cost of equity?**

17 A. Yes. As previously demonstrated, interest rates and cost of equity tend to move in the  
18 same direction; therefore, cost of equity has declined in the past 25 years.

19  
20 **Q. Do actual returns represent the cost of equity?**

21 A. No. The cost of equity represents investors' *expected* returns and not realized returns.

1 **Q. Is there any information available that leads to an understanding of the relationship**  
2 **between the equity returns required for a regulated water utility and those required**  
3 **in the market as a whole?**

4 A. Yes. A comparison of betas, a component of the CAPM discussed in Section V, for the  
5 water utility industry and the market provide insight into this relationship. The average  
6 beta (0.80)<sup>1</sup> for a water utility is lower than the theoretical average beta for all stocks (1.0).  
7 According to the CAPM formula, the cost of equity capital moves in the same direction as  
8 beta. Since the beta for the water utility industry is lower than the beta for the market, the  
9 implication is that the required return on equity for a regulated water utility is below the  
10 average required return on the market.

11  
12 **Risk**

13 **Q. Please define risk in relation to cost of capital.**

14 A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a  
15 particular security. Investors are risk averse and require a greater potential return to invest  
16 in relatively greater risk opportunities, i.e., investors require compensation for taking  
17 on additional risk. Risk is generally separated into two components. Those components  
18 are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific  
19 risk).

20  
21 **Q. What is market risk?**

22 A. Market risk or systematic risk is the risk of an investment that cannot be reduced through  
23 diversification. Market risk stems from factors that affect all securities such as recessions,  
24 war, inflation and high interest rates. Since these factors affect the entire market they  
25 cannot be eliminated through diversification. Market risk does not impact each security to

---

<sup>1</sup> See Schedule JCM-7

1 the same degree. The degree to which any security's returns is affected by the market can  
2 be measured using Beta. Beta reflects the business risk and the financial risk of a security.  
3

4 **Q. Please define business risk.**

5 A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment  
6 such as competition and adverse economic conditions that may impair its ability to  
7 provide returns on investment. Companies in the same or similar line of business tend to  
8 experience the same fluctuations in business cycles.  
9

10 **Q. Please define financial risk.**

11 A. Financial risk is the fluctuation of earnings inherent in using debt financing by a firm that  
12 may impair its ability to provide adequate return. The more a company uses debt  
13 financing, the more the company becomes exposed to financial risk.  
14

15 **Q. Do business risk and financial risk affect the cost of equity?**

16 A. Yes.  
17

18 **Q. Is a firm subject to any other risk?**

19 A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of  
20 unsystematic risk include losses caused by labor problems, nationalization of assets, loss  
21 of a big client or weather conditions. Investors can eliminate firm-specific risk by holding  
22 a diverse portfolio; thus, it is not of concern to diversified investors.

1   **Q.   How does Arizona-American's financial risk compare to the sample water**  
2       **companies' financial risk from the perspective of an investor?**

3   A.   From an investor's perspective, Arizona-American's capital structure is more risky than  
4       the sample water companies. Schedule JCM-4 shows the capital structures of the six  
5       publicly traded water companies ("sample water companies") as of June 2009, as well as  
6       Arizona-American's actual capital structure. As of June 2009, the sample water utilities  
7       were capitalized with approximately 50.2 percent debt and 49.8 percent equity, while  
8       Arizona-American's capital structure consists of approximately 61.14 percent debt and  
9       38.86 percent equity. Thus, Arizona-American's shareholders bear more financial risk  
10      than the shareholders of the sample companies.

11  
12   **Q.   Is firm-specific risk measured by beta?**

13   A.   No. Firm-specific risk is not measured by beta.

14  
15   **Q.   Is the cost of equity affected by firm-specific risk?**

16   A.   No. Since firm-specific risk can be eliminated through diversification, it does not affect  
17      the cost of equity.

18  
19   **Q.   Can investors expect additional returns for firm-specific risk?**

20   A.   No. Investors who hold diversified portfolios can eliminate firm-specific risk, and  
21      consequently, do not require any additional return. Since investors who choose to be less  
22      than fully diversified must compete in the market with fully diversified investors, the  
23      former cannot expect to be compensated for unique risk.

**V. ESTIMATING THE COST OF EQUITY**

**Introduction**

**Q. Did Staff directly estimate the cost of equity for Arizona-American?**

A. No. Since Arizona-American is not a publicly-traded company, Staff is unable to directly estimate Arizona-American's cost of equity due to the unavailability of financial information. Instead, Staff uses an average of a representative sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

**Q. What companies did Staff select as proxies or comparables for Arizona-American?**

A. Staff's sample consists of the following six publicly-traded water utilities: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America and SJW Corp. Staff chose these companies because they are publicly-traded and receive the majority of their earnings from regulated operations.

**Q. Please explain the relevance of using six water companies as a proxy for the wastewater division of Arizona-American.**

A. While the provision of wastewater service is different from the provision of water service, water and wastewater utilities are subject to similar risk factors and regulatory oversight. Therefore, the sample water companies are an appropriate proxy for the wastewater division of Arizona-American as well as the water division.

**Q. What models did Staff implement to estimate Arizona-American's cost of equity?**

A. Staff used two market-based models to estimate the cost of equity for Arizona-American: the DCF model and the CAPM.

1     **Q.     Please explain why Staff chose the DCF and CAPM models.**

2     A.     Staff chose to use the DCF and CAPM models because they are widely recognized  
3           market-based models and have been used extensively to estimate the cost of equity. An  
4           explanation of the DCF and CAPM models follows.

5  
6     **Discounted Cash Flow Model Analysis**

7     **Q.     Please provide a brief summary of the theory upon which the DCF method of**  
8           **estimating the cost of equity is based.**

9     A.     The DCF method of stock valuation is based on the theory that the value of an investment  
10           is equal to the sum of the future cash flows generated from the aforementioned investment  
11           discounted to the present time. This method uses expected dividends, market price and  
12           dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered  
13           the DCF method in the 1960s. The DCF method has become widely used to estimate the  
14           cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used  
15           the financial information for the relevant six sample companies in the DCF model and  
16           averaged the results to determine an estimated cost of equity for the sample companies.

17  
18    **Q.     Does Staff use more than one version of the DCF?**

19    A.     Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-  
20           stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's  
21           dividends will grow indefinitely at the same rate. The multi-stage growth DCF model  
22           assumes the dividend growth rate will change at some point in the future.

***The Constant-Growth DCF***

**Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?**

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2 :

$$K = \frac{D_1}{P_0} + g$$

where :      $K$      = the cost of equity  
                $D_1$      = the expected annual dividend  
                $P_0$      = the current stock price  
                $g$      = the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of \$10 per share, an expected annual dividend of \$0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ( $\$0.45 / \$10 = 4.5$  percent) and the 3.0 percent annual dividend growth rate.

**Q. How did Staff calculate the dividend yield component ( $D_1/P_0$ ) of the constant-growth DCF formula?**

A. Staff calculated the yield component of the DCF formula by dividing the expected annual dividend<sup>2</sup> ( $D_1$ ) by the spot stock price ( $P_0$ ) after the close of the market January 6, 2010, as reported by *MSN Money*.

---

<sup>2</sup> Value Line Summary & Index, 1-6-10

1     **Q.     Why did Staff use the January 6, 2010, spot price rather than a historical average**  
2     **stock price to calculate the dividend yield component of the DCF formula?**

3     A.     Current, rather than historic, market stock price is used in order to be consistent with  
4     finance theory, i.e., the efficient market hypothesis. The efficient market hypothesis  
5     asserts that the current stock price reflects all available information on a stock including  
6     investors' expectations of future returns. Use of a historical average of stock prices  
7     illogically discounts the most recent information in favor of less recent information. The  
8     latter is stale and is representative of underlying conditions that may have changed.

9  
10    **Q.     How did Staff estimate the dividend growth (g) component of the constant-growth**  
11    **DCF model represented by Equation 2?**

12    A.     The dividend growth component used by Staff is determined by the average of six  
13    different estimation methods as shown in Schedule JCM-8. Staff calculated historical and  
14    projected growth estimates on dividend-per-share ("DPS"),<sup>3</sup> earnings-per-share ("EPS")<sup>4</sup>  
15    and sustainable growth bases.

16  
17    **Q.     Why did Staff examine EPS growth to estimate the dividend growth component of**  
18    **the constant-growth DCF model?**

19    A.     Historic and projected EPS growth are used because dividends are related to earnings.  
20    Dividend distributions may exceed earnings in the short run but cannot continue  
21    indefinitely. In the long term, dividend distributions are dependent on earnings.

---

<sup>3</sup> Derived from information provided by *Value Line*

<sup>4</sup> Derived from information provided by *Value Line*

1     **Q.     How did Staff estimate historical DPS growth?**

2     A.     Staff estimated historical DPS growth by calculating the average rate of growth in DPS of  
3           the sample water companies from 1998 to 2008. The results of that calculation are shown  
4           in Schedule JCM-5. Staff calculated an average historical DPS growth rate of 3.1 percent  
5           for the sample water utilities for the aforementioned period.

6  
7     **Q.     How did Staff estimate the projected DPS growth?**

8     A.     Staff calculated an average of the projected DPS growth rates for the sample water utilities  
9           from *Value Line*. The average projected DPS growth rate is 4.1 percent, as shown in  
10          Schedule JCM-5.

11  
12    **Q.     How did Staff calculate the historical EPS growth rate?**

13    A.     Staff estimated historical EPS growth by calculating the average rate of growth in EPS of  
14          the sample water companies from 1998 to 2008. Staff calculated an average historical  
15          EPS growth rate of 3.3 percent for the sample water utilities for the aforementioned  
16          period, as shown in Schedule JCM-5.

17  
18    **Q.     How did Staff estimate the projected EPS growth?**

19    A.     Staff calculated an average of the projected EPS growth rates for the sample water utilities  
20          from *Value Line*. The average projected EPS growth rate is 9.7 percent, as shown in  
21          Schedule JCM-5.

22  
23    **Q.     How does Staff calculate its historical and projected sustainable growth rates?**

24    A.     Historical and projected sustainable growth rates are calculated by adding their respective  
25          retention growth rate terms (br) to their respective stock financing growth rate terms (vs),  
26          as shown in Schedule JCM-6.

1     **Q.     What is retention growth?**

2     A.     Retention growth is the growth in dividends due to the retention of earnings. The  
3           retention growth concept is based on the theory that dividend growth cannot be achieved  
4           unless the company retains and reinvests some of its earnings. The retention growth is  
5           used in Staff's calculation of sustainable growth shown in Schedule JCM-6.

6  
7     **Q.     What is the formula for the retention growth rate?**

8     A.     The retention growth rate is the product of the retention ratio and the book/accounting  
9           return on equity. The retention growth rate formula is:

10           Equation 3 :

$$\text{Retention Growth Rate} = br$$

          where :     ***b***   = the retention ratio (1 – dividend payout ratio)  
                          ***r***   = the accounting/book return on common equity

11

12     **Q.     How did Staff calculate the average historical retention growth rate (br) for the**  
13           **sample water utilities?**

14     A.     Staff calculated the historical retention rates by averaging the retention rates for the  
15           sample water companies from 1999 to 2008. The historical average retention (br) growth  
16           for the sample water utilities is 3.0 percent, as shown in Schedule JCM-6.

17

18     **Q.     How did Staff determine projected retention growth rate (br) for the sample water**  
19           **utilities?**

20     A.     Staff used the retention growth projections for the sample water utilities for the period  
21           2012 to 2014 from *Value Line*. The projected average retention growth rate for the sample  
22           water utilities is 6.1 percent, as shown in Schedule JCM-6.

1   **Q.    When can retention growth provide a reasonable estimate of future dividend**  
2       **growth?**

3    A.    The retention growth rate is a reasonable estimate of future dividend growth when the  
4           retention ratio is reasonably constant and the entity's market price to book value ("market-  
5           to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably  
6           constant in recent years. However, the market-to-book ratio for the sample water utilities  
7           is 1.8, notably higher than 1.0, as shown in Schedule JCM-7.

8  
9   **Q.    Is there any financial implication of a market-to-book ratio greater than 1.0?**

10   A.    Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to  
11           earn an accounting/book return on its equity that exceeds its cost of equity. The  
12           relationship between required returns and expected cash flows is readily observed in the  
13           fixed securities market. For example, assume an entity contemplating issuance of bonds  
14           with a face value of \$10 million at either 6 percent or 8 percent, and thus, paying annual  
15           interest of \$600,000 or \$800,000, respectively. Regardless of investors' required return on  
16           similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent  
17           than if the bonds are issued at 6 percent. For example, if the current interest rate required  
18           by investors is 6 percent, then they would bid \$10 million for the 6 percent bonds and  
19           more than \$10 million for the 8 percent bonds. Similarly, if equity investors require a 9  
20           percent return and expect an entity to earn accounting/book returns of 13 percent, the  
21           market will bid up the price of the entity's stock to provide the required return of 9  
22           percent.

1   **Q.    How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of**  
2       **equity analyses in recent years?**

3    A.   Staff has assumed that investors expect the market-to-book ratio to remain greater than  
4       1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the  
5       retention ratio (br) term to calculate its historical and projected sustainable growth rates.

6  
7   **Q.    Do the historical and projected sustainable growth rates Staff uses to develop its**  
8       **DCF cost of equity in this case continue to include a stock financing growth rate**  
9       **term?**

10   A.   Yes.

11  
12   **Q.    What is stock financing growth?**

13   A.   Stock financing growth is the growth in an entity's dividends due to the sale of stock by  
14       that entity. Stock financing growth is a concept derived by Myron Gordon and discussed  
15       in his book *The Cost of Capital to a Public Utility*.<sup>5</sup> Stock financing growth is the product  
16       of the fraction of the funds raised from the sale of stock that accrues to existing  
17       shareholders (v) and the fraction resulting from dividing the funds raised from the sale of  
18       stock by the existing common equity (s).

---

<sup>5</sup> Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

1     **Q.     What is the mathematical formula for the stock financing growth rate?**

2     A.     The mathematical formula for stock financing growth is:

Equation 4 :

$$\text{Stock Financing Growth} = vs$$

where :      $v$  = Fraction of the funds raised from the sale of stock that accrues  
to existing shareholders

$s$  = Funds raised from the sale of stock as a fraction of the existing  
common equity

3

4     **Q.     How is the variable  $v$  presented above calculated?**

5     A.     Variable  $v$  is calculated as follows:

Equation 5 :

$$v = 1 - \left( \frac{\text{book value}}{\text{market value}} \right)$$

6

7     For example, assume that a share of stock has a \$30 book value and is selling for \$45.

8     Then, to find the value of  $v$ , the formula is applied:

$$v = 1 - \left( \frac{30}{45} \right)$$

9

In this example,  $v$  is equal to 0.33.

10

11     **Q.     How is the variable  $s$  presented above calculated?**

12     A.     Variable  $s$  is calculated as follows:

13

Equation 6:

14

15

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

1 For example, assume that an entity has \$150 in existing equity, and it sells \$30 of stock.  
2 Then, to find the value of  $s$ , the formula is applied:

$$s = \left( \frac{30}{150} \right)$$

3 In this example,  $s$  is equal to 20.0 percent.

4  
5 **Q. What is the  $vs$  term when the market-to-book ratio is equal to 1.0?**

6 A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a  
7 book/accounting return on their equity investment equal to the cost of equity. When the  
8 market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the  
9 entity accrues to the benefit of existing shareholders, i.e., the term  $v$  is equal to zero (0.0).  
10 Consequently, the  $vs$  term is also equal to zero (0.0). When stock financing growth is  
11 zero, dividend growth depends solely on the  $br$  term.

12  
13 **Q. What is the effect of the  $vs$  term when the market-to-book ratio is greater than 1.0?**

14 A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a  
15 book/accounting return on their equity investment greater than the cost of equity.  
16 Equation 5 shows that when the market-to-book ratio is greater than 1.0 the  $v$  term is also  
17 greater than zero. The excess by which new shares are issued and sold over book value  
18 per share of outstanding stock is a contribution that accrues to existing stockholders in the  
19 form of a higher book value. The resulting higher book value leads to higher expected  
20 earnings and dividends. Continued growth from the  $vs$  term is dependent upon the  
21 continued issuance and sale of additional shares at a price that exceeds book value per  
22 share.

1     **Q.     What *vs* estimate did Staff calculate from its analysis of the sample water utilities?**

2     A.     Staff estimated an average stock financing growth of 2.2 percent for the sample water  
3             utilities, as shown in Schedule JCM-6.

4  
5     **Q.     What would occur if an entity had a market-to-book ratio greater than 1.0 as a result  
6             of investors expecting earnings to exceed the cost of equity capital and the entity  
7             subsequently experienced newly-authorized rates equal to its cost of equity capital?**

8     A.     Market pressure on the entity's stock price to reflect the change in future expected cash  
9             flows would cause the market-to-book ratio to move toward 1.0.

10

11    **Q.     Is inclusion of the *vs* term necessary if the average market-to-book ratio of the  
12             sample water utilities falls to 1.0 due to authorized ROEs equaling the cost of equity?**

13    A.     No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds  
14             raised from the sale of stock by the entity accrues to the benefit of existing shareholders  
15             because the *v* term equals to zero, and consequently, the *vs* term also equals zero. When  
16             the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term.  
17             Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed  
18             1.0 and that the water utilities will continue to issue and sell stock at prices above book  
19             value with the effect of benefitting existing shareholders.

20

21    **Q.     What are Staff's historical and projected sustainable growth rates?**

22    A.     Staff's estimated historical sustainable growth rate is 5.2 percent based on an analysis of  
23             earnings retention for the sample water companies. Staff's projected sustainable growth  
24             rate is 9.1 percent based on retention growth projected by *Value Line*. Schedule JCM-6  
25             presents Staff's estimates of the sustainable growth rate.

1    **Q.    What is Staff's expected infinite annual growth rate in dividends?**

2    A.    Staff's expected infinite annual growth rate in dividends is 5.8 percent which is the  
3           average of historical and projected dividends per share ("DPS"), earnings per share  
4           ("EPS"), and sustainable growth estimates. Staff's calculation of the expected infinite  
5           annual growth rate in dividends is shown in Schedule JCM-8.

6  
7    **Q.    What is Staff's constant-growth DCF estimate for the sample utilities?**

8    A.    Staff's constant-growth DCF estimate is 9.3 percent, as shown in Schedule JCM-3.  
9

10    *The Multi-Stage DCF*

11    **Q.    Why did Staff implement the multi-stage DCF model to estimate Arizona-**  
12           **American's cost of equity?**

13    A.    Staff generally uses the multi-stage DCF model to consider the assumption that dividends  
14           may not grow at a constant rate. The multi-stage DCF uses two stages of growth. The  
15           first stage is four years followed by the second constant growth stage.

1    **Q.    What is the mathematical formula for the multi-stage DCF?**

2    A.    The multi-stage DCF formula is shown in the following equation:

Equation 7 :

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price

$D_t$  = dividends expected during stage 1

$K$  = cost of equity

$n$  = years of non – constant growth

$D_n$  = dividend expected in year n

$g_n$  = constant rate of growth expected after year n

3

4    **Q.    What steps did Staff take to implement its multi-stage DCF cost of equity model?**

5    A.    First, Staff projected future dividends for each of the sample water utilities using near-  
6    term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which  
7    equates the present value of the forecasted dividends to the current stock price for each of  
8    the sample water utilities. Lastly, Staff calculated an average of the individual sample  
9    company cost of equity estimates.

10

11    **Q.    How did Staff calculate near-term (stage-1) growth?**

12    A.    The stage-1 growth rate is based on *Value Lines*'s projected dividends for the next twelve  
13    months, when available, and on the average dividend growth rate (5.8 percent) calculated  
14    in Staff's constant DCF analysis for the remainder of the stage.

1     **Q.     How did Staff estimate long-term (stage-2) growth?**

2     A.     Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in GDP  
3             from 1929 to 2008.<sup>6</sup> Using the GDP growth rate assumes that the water utility industry is  
4             expected to grow at the same rate as the overall economy.

5  
6     **Q.     What is the historical GDP growth rate that Staff used to estimate stage-2 growth?**

7     A.     Staff used 6.7 percent to estimate the stage-2 growth rate.

8  
9     **Q.     What is Staff's multi-stage DCF estimate for the sample utilities?**

10    A.     Staff's multi-stage DCF estimate is 10.0 percent, as shown in Schedule JCM-3.

11  
12   **Q.     What is Staff's overall DCF estimate for the sample utilities?**

13    A.     Staff's overall DCF estimate is 9.7 percent. Staff calculated the overall DCF estimate by  
14             averaging the constant growth DCF (9.3%) and multi-stage DCF (10.0%) estimates, as  
15             shown in Schedule JCM-3.

16  
17   **Capital Asset Pricing Model**

18   **Q.     Please describe the CAPM.**

19    A.     The CAPM is used to determine the prices of securities in a competitive market. The  
20             CAPM model describes the relationship between a security's investment risk and its  
21             market rate of return. Under the CAPM, an investor requires the expected return of a  
22             security to equal the rate on a risk-free security plus a risk premium. If the investor's  
23             expected return does not meet or beat the required return, the investment is not  
24             economically justified. The model also assumes that investors will sufficiently diversify

---

<sup>6</sup> [www.bea.doc.gov](http://www.bea.doc.gov)

1        their investments to eliminate any non-systematic or unique risk.<sup>7</sup> In 1990, Professors  
2        Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in  
3        Economic Sciences for their contribution to the development of the CAPM.

4  
5        **Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity**  
6        **estimation analyses?**

7        A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water  
8        companies as its DCF cost of equity estimation analysis.

9  
10       **Q. What is the mathematical formula for the CAPM?**

11       A. The mathematical formula for the CAPM is:

12  
Equation 8 :

$$K = R_f + \beta (R_m - R_f)$$

where:      $R_f$         = risk free rate  
               $R_m$         = return on market  
               $\beta$             = beta  
               $R_m - R_f$  = market risk premium  
               $K$            = expected return

13  
14       The equation shows that the expected return (K) on a risky asset is equal to the risk-free  
15       interest rate ( $R_f$ ) plus the product of the market risk premium ("Rp") ( $R_m - R_f$ ) multiplied  
16       by beta ( $\beta$ ) where beta represents the riskiness of the investment relative to the market.

---

<sup>7</sup> The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

1     **Q.     What is the risk free rate?**

2     A.     The risk free rate is the rate of return of an investment with zero risk.

3

4     **Q.     What does Staff use as surrogates to represent estimations of the risk-free rates of**  
5     **interest in its historical and current market risk premium CAPM methods?**

6     A.     Staff uses separate parameters as surrogates for the estimations of the risk-free rates of  
7     interest for the historical market risk premium CAPM cost of equity estimation and the  
8     current market risk premium CAPM cost of equity estimation. Staff uses the average of  
9     three (five-, seven-, and ten-year) intermediate-term U.S. Treasury securities' spot rates in  
10    its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S.  
11    Treasury bond spot rate in its current market risk premium CAPM cost of equity  
12    estimation. Rates on U.S. Treasuries are largely verifiable and readily available.

13

14    **Q.     What does beta measure?**

15    A.     Beta measures the volatility, or systematic risk, of a security relative to the market. Since  
16    systematic risk cannot be diversified away, it is the only risk that is relevant when  
17    estimating a security's required return. Using a baseline market beta of 1.0, a security  
18    with a beta less than 1.0 will be less volatile than the market. A security with a beta  
19    greater than 1.0 will be more volatile than the market.

20

21    **Q.     How did Staff estimate Arizona-American's beta?**

22    A.     Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for  
23    Arizona-American's beta. Schedule JCM-7 shows the *Value Line* betas for each of the  
24    sample water utilities. The 0.80 average beta for the sample water utilities is Staff's  
25    estimated beta for Arizona-American. A security with a 0.80 beta has less volatility than  
26    the market.

1    **Q.    Please describe expected market risk premium ( $R_m - R_f$ )?**

2    A.    The expected market risk premium is the expected return on the market above the risk free  
3        rate. Simplified, it is the return an investor expects as compensation for market risk.

4  
5    **Q.    What did Staff use for the market risk premium?**

6    A.    Staff uses separate calculations for the market risk premium in its historical and current  
7        market risk premium CAPM methods.

8  
9    **Q.    How did Staff calculate an estimate for the market risk premium in its historical  
10        market risk premium CAPM method?**

11   A.    Staff uses the intermediate-term government bond income returns published in the  
12        Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2008 Yearbook* to calculate the  
13        historical market risk premium. Ibbotson Associates calculates the historical risk  
14        premium by averaging the historical arithmetic differences between the S&P 500 and the  
15        intermediate-term government bond income returns for the period 1926-2008. Staff's  
16        historical market risk premium estimate is 6.9 percent, as shown in Schedule JCM-3.

17  
18   **Q.    How did Staff calculate an estimate for the market risk premium in its current  
19        market risk premium CAPM method?**

20   A.    Staff solves equation 8 above to arrive at a market risk premium using a DCF derived  
21        expected return (K) of 12.67 ( $2.0 + 10.67^8$ ) percent using the expected dividend yield (2.0  
22        percent over the next twelve months) and the annual per share growth rate (10.67 percent)  
23        that *Value Line* projects for all dividend-paying stocks under its review<sup>9</sup> along with the  
24        current long-term risk-free rate (30-year Treasury note at 4.70 percent) and the market's

---

<sup>8</sup> The three to five year price appreciation is 50%.  $1.50^{0.25} - 1 = 10.67\%$

<sup>9</sup> January 6, 2010 issue date.

1 average beta of 1.0. Staff calculated the current market risk premium as 7.97,<sup>10</sup> as shown  
2 in Schedule JCM-3.

3  
4 **Q. What is the result of Staff's historical market risk premium CAPM and current**  
5 **market risk premium CAPM cost of equity estimations for the sample utilities?**

6 A. Staff's cost of equity estimates are 8.8 percent using the historical market risk premium  
7 CAPM and 11.1 using the current market risk premium CAPM.

8  
9 **Q. What is Staff's overall CAPM estimate for the sample utilities?**

10 A. Staff's overall CAPM cost of equity estimate is 10.0 percent which is the average of the  
11 historical market risk premium CAPM (8.8 percent) and the current market risk premium  
12 CAPM (11.1 percent) estimates, as shown in Schedule JCM-3.

13  
14 **VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS**

15 **Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of**  
16 **equity to the sample water utilities?**

17 A. Schedule JCM-3 shows the result of Staff's constant-growth DCF analysis. The result of  
18 Staff's constant-growth DCF analysis is as follows:

19  
20 
$$k = 3.5\% + 5.8\%$$

21  
22 
$$k = 9.3\%$$

23  
24 Staff's constant-growth DCF estimate of the cost of equity to the sample water utilities is  
25 9.3 percent.

---

<sup>10</sup> 12.67% = 4.70% + (1) (7.97%)

1 **Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity**  
2 **for the sample utilities?**

3 A. Schedule JCM-9 shows the result of Staff's multi-stage DCF analysis. The result of  
4 Staff's multi-stage DCF analysis is:

Company	Equity Cost Estimate (k)
American States Water	9.5%
California Water	10.0%
Aqua America	9.8%
Connecticut Water	10.4%
Middlesex Water	10.9%
SJW Corp	<u>9.6%</u>
<b>Average</b>	<b>10.0%</b>

16  
17 Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 10.0  
18 percent.

19  
20 **Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?**

21 A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.7 percent.  
22 Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant  
23 growth DCF (9.3 percent) and Staff's multi-stage DCF (10.0 percent) estimates, as shown  
24 in Schedule JCM-3.

25  
26 **Q. What is the result of Staff's historical market risk premium CAPM analysis to**  
27 **estimate of the cost of equity for the sample utilities?**

28 A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the historical risk  
29 premium estimate. The result is as follows:

30 
$$k = 3.3\% + 0.80 * 6.9\%$$
$$k = 8.8\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 8.8 percent.

**Q. What is the result of Staff's current market risk premium CAPM analysis to estimate the cost of equity for the sample utilities?**

A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the current market risk premium estimate. The result is:

$$k = 4.7\% + 0.80 * 8.0\%$$

$$k = 11.1\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 11.1 percent.

**Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?**

A. Staff's overall CAPM estimate for the sample utilities is 10.0 percent. Staff's overall CAPM estimate is the average of the historical market risk premium CAPM (8.8 percent) and the current market risk premium CAPM (11.1 percent) estimates, as shown in Schedule JCM-3.

**Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.**

A. The following table shows the results of Staff's cost of equity analysis:

**Table 2**

<b>Method</b>	<b>Estimate</b>
Average DCF Estimate	9.7%
Average CAPM Estimate	10.0%
<b>Overall Average</b>	<b>9.9%</b>

Staff's average estimate of the cost of equity to the sample water utilities is 9.9 percent.

**VII. FINAL COST OF EQUITY ESTIMATES FOR ARIZONA-AMERICAN**

**Q. Please compare Arizona-American's capital structure to that of the six sample water companies.**

A. The average capital structure for the sample water utilities is composed of 49.8 percent equity and 50.2 percent debt, as shown in Schedule JCM-4. Arizona-American's capital structure is composed of 38.86 percent equity and 61.14 percent debt. In this case, since Arizona-American's capital structure is more leveraged than that of the average sample water utilities' capital structure, its stockholders bear more financial risk than the sample water utilities. Accordingly, Arizona-American's cost of equity is higher than that of the sample water utilities.

**Q. What method does Staff use to calculate the effect on the cost of equity capital of the different financial risks posed by Arizona-American versus the sample companies?**

A. Staff uses the methodology developed by Professor Robert Hamada of the University of Chicago, which incorporates capital structure theory with the CAPM, to estimate the effect of Arizona-American's capital structure on its cost of equity. Staff calculated a financial risk adjustment for Arizona-American of positive 80 basis points (0.8 percent) based on the Company's capital structure of 38.86 percent equity and 61.14 percent debt in order to reflect the Company's actual financial risk. Arizona-American's cost of equity adjusted for financial risk (10.7 percent) can be determined by adding this 0.8 percent financial risk adjustment from Staff's average estimate of the cost of equity to the sample water utilities (9.9 percent).

1 **Q. What is Staff's ROE estimate for Arizona-American?**

2 A. Staff determined an ROE estimate of 9.9 percent for the Company based on cost of equity  
3 estimates for the sample companies ranging from 9.7 percent for the DCF to 10.0 percent  
4 for the CAPM. Staff recommends adoption of an 80 basis point upward financial risk  
5 adjustment of the ROE to 10.7 percent.

6  
7 **VIII. RATE OF RETURN RECOMMENDATION**

8 **Q. What overall rate of return did Staff determine for Arizona-American?**

9 A. Staff determined a 7.2 percent ROR for the Company, as shown in Schedule JCM-1 and  
10 the following table:

11  
12 **Table 3**

13

	Weight	Cost	Weighted Cost
Short-Term and Long-term Debt	61.14%	4.91%	3.0%
Common Equity	38.86%	10.7%	<u>4.2%</u>
<b>Overall ROR</b>			<b><u>7.2%</u></b>

14

15 **IX. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS DR.**  
16 **BENTE VILLADSEN**

17 **Q. Please summarize Dr. Villadsen's analyses and recommendations.**

18 A. Dr. Villadsen recommends a 12.25 percent ROE based on analyses for single and multi-  
19 stage DCF models, the CAPM, and the empirical capital asset pricing model ("ECAPM")  
20 for a sample of water companies and a sample of gas companies. Dr. Villadsen estimates  
21 the cost of equity for the sample companies using these analyses. Then, she estimates an  
22 after-tax weighted average cost of capital ("ATWACC") for each company in the water  
23 and gas samples using each entity's market value capital structure. Lastly, she separately

1 calculates an average ATWACC for each DCF analysis, for each CAPM analysis and for  
2 each ECAPM analysis for the water and gas samples. She dismisses the water sample as  
3 not credible due to the variability of those findings. Instead, she uses solely the gas  
4 samples to arrive at her ROE.

5  
6 **Q. Has the Commission previously adopted the ATWACC methodology for determining**  
7 **the cost of equity capital?**

8 A. No. Use of the ATWACC methodology to estimate the cost of equity capital is not widely  
9 accepted in the regulatory environment. The Commission has previously rejected the  
10 ATWACC methodology recognizing that it produces an inflated estimate that would  
11 overcompensate for financial risk and would require customers to overcompensate  
12 investors.<sup>11</sup> Also, regulatory agencies in the United States generally use book values when  
13 estimating the cost of capital of a public utility. The ATWACC methodology uses ROE  
14 as a dependent variable that is derived by inappropriately equating the sample companies'  
15 market value capital structure ATWACC to the Applicant's book value capital structure  
16 ATWACC.

17  
18 **Q. Does Staff have any comments on Dr. Villadsen's sole reliance on analysts' forecasts**  
19 **to estimate DPS growth in her constant growth DCF estimates?**

20 A. Yes. Generally, analysts' forecasts are known to be overly optimistic. Sole use of  
21 analysts' forecasts to calculate the growth in dividends (g), causes inflated growth, and  
22 consequently, inflated cost of equity estimates. Also, relying only on analysts' forecasts  
23 of earnings growth to forecast DPS is inappropriate because it assumes that investors do  
24 not look at other relevant information such as past dividend and earnings growth.

---

<sup>11</sup> Decision Nos. 68858, 70209 and 70372.

1 **Q. How does Staff respond to Dr. Villadsen's statement, "In other words, using**  
2 **historical data provides no additional information to that captured in analyst**  
3 **forecasts."**<sup>12</sup>?

4 A. The appropriate growth rate to use in the DCF formula is the dividend growth rate  
5 expected by *investors*, not analysts. Therefore, while analysts may have considered  
6 historical measures of growth, it is reasonable to assume that investors also rely on past  
7 growth. This calls for consideration of both analysts' forecasts as well as past growth.  
8

9 **Q. Does Staff have any evidence to support its assertion that exclusive reliance on**  
10 **analysts' forecasts of earnings growth in the DCF model would result in inflated cost**  
11 **of equity estimates?**

12 A. Yes. Experts in the financial community have commented on the optimism in analysts'  
13 forecasts of future earnings.<sup>13</sup> A study cited by David Dreman in his book *Contrarian*  
14 *Investment Strategies: The Next Generation* found that *Value Line* analysts were  
15 optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period.  
16 Another study conducted by David Dreman found that between 1982 and 1997, analysts  
17 overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

18 Also, Burton Malkiel of Princeton University studied the one-year and five-year earnings  
19 forecasts made by some of the most respected names in the investment business. His  
20 results showed that the five-year estimates of professional analysts, when compared with  
21 actual earnings growth rates, were much worse than the predictions from several naïve  
22 forecasting models, such as the long-run rate of growth of national income. In the

---

<sup>12</sup> Direct testimony of Dr. Bente Villadsen, page 53.

<sup>13</sup> See Seigel, Jeremy J. *Stocks for the Long Run*. 2002. McGraw-Hill. New York. p. 100. Dreman, David. *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175. Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

1 following excerpt from Professor Malkiel's book *A Random Walk Down Wall Street*, he  
2 discusses the results of his study:

3 When confronted with the poor record of their five-year growth  
4 estimates, *the security analysts honestly, if sheepishly, admitted*  
5 *that five years ahead is really too far in advance to make reliable*  
6 *projections.* They protested that although long-term projections  
7 are admittedly important, they really ought to be judged on their  
8 ability to project earnings changes one year ahead. Believe it or  
9 not, it turned out that their one-year forecasts were even worse than  
10 their five-year projections.

11 The analysts fought back gamely. They complained that it was  
12 unfair to judge their performance on a wide cross section of  
13 industries, because earnings for high-tech firms and various  
14 "cyclical" companies are notoriously hard to forecast. *"Try us on*  
15 *utilities," one analyst confidently asserted. At the time they were*  
16 *considered among the most stable group of companies because of*  
17 *government regulation. So we tried it and they didn't like it. Even*  
18 *the forecasts for the stable utilities were far off the mark.*<sup>14</sup>  
19 (Emphasis added)

20  
21 **Q. Are investors aware of the problems related to analysts' forecasts?**

22 A. Yes. In addition to books, there are numerous published articles appearing in *The Wall*  
23 *Street Journal* and other financial publications that cast doubt as to how accurate research  
24 analysts are in their forecasts.<sup>15</sup> Investors, being keenly aware of these inherent biases in  
25 forecasts, will use other methods to assess future growth.  
26

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<sup>14</sup> Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175

<sup>15</sup> See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110.

1     **Q.     Should DPS growth be considered in a DCF analysis?**

2     A.     Yes. As previously stated on section V of this testimony, the current market price of a  
3             stock is equal to the present value of all expected future dividends, not future earnings.  
4             Professor Jeremy Siegel from the Wharton School of Finance stated:

5  
6                     Note that the price of the stock is always equal to the present value  
7                     of all future *dividends* and not the present value of future earnings.  
8                     Earnings not paid to investors can have value only if they are paid  
9                     as dividends or other cash disbursements at a later date. Valuing  
10                    stock as the present discounted value of future earnings is  
11                    manifestly wrong and greatly overstates the value of the firm.<sup>16</sup>  
12

13             In other words, investors pay attention to earnings as long as they are paid as dividends.  
14             Earnings can easily be overstated. If investors do not receive dividends or other cash  
15             disbursement at a later date, then such earnings are meaningless. Accordingly, historical  
16             DPS growth should receive appropriate consideration in the estimation of DPS growth  
17             component of the DCF cost of equity estimation model.

18  
19     **Q.     Does Staff have any comment on Dr. Villadsen's statements, "Therefore, using the**  
20             **current risk-free rate in the risk-positioning models will not accurately reflect the**  
21             **risk inherent in owning equity. Specifically, the *increase* in yield spread has to be**  
22             **taken into account?"**<sup>17</sup>

23     A.     Yes. Dr. Villadsen has chosen to add 125 basis points to the current estimate of the long-  
24             term risk-free rate. She has chosen this method to account for the increase in yield spread  
25             of corporate bonds over government bonds between 1991 and 2007. The use of this time  
26             period is arbitrary. There is no indication given as to the significance of this time period  
27             and its implications. Additionally, this implies that when the yield spread for corporate

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<sup>16</sup> Siegel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

<sup>17</sup> Direct Testimony of Dr. Villadsen, Arizona-American, Docket No. W-01303A-09-0343, page 21 lines 16-18

1 bonds over government bonds decreases, a deduction to the government bond rate is  
2 appropriate to reflect the risk free rate. Moreover, in the CAPM formula when the risk  
3 free rate is increased, the market risk premium decreases. Therefore, the cost of equity  
4 estimate does not change by the same amount as the increase in the risk free rate as  
5 proposed by Dr. Villadsen. The proper risk-free rate is that borne by the market.

6  
7 **Q. Does Staff have any comment on Dr. Villadsen's statement, "While the Commission**  
8 **Staff in the past has given weight to the water sample's DCF results, I respectfully**  
9 **submit that the high variability of these growth rates makes them very unreliable at**  
10 **this point in time."**<sup>18</sup>

11 A. The omission of the water sample is questionable. Dr. Villadsen suggests that inputs that  
12 have outcomes that produce inconsistent results should be selectively eliminated. While  
13 Staff recognizes the legitimacy of excluding outliers among data, wholesale exclusion of  
14 variable results is not appropriate. Dr. Villadsen's water results are more variable than  
15 Staff's due to her exclusive reliance on analysts' projections. Thus, while her water  
16 sample analysis may not provide a useable output, Staff's cost of equity estimation model  
17 includes a balance of inputs to provide a reliable result.

---

<sup>18</sup> Direct Testimony of Dr. Villadsen, Arizona-American, Docket No. W-01303A-09-0343, page 56 lines 5-7

1 **Q. What is Staff's response to Dr. Villadsen's quoting of Debra G. Coy in stating that**  
2 **"investors have come to understand that 'low risk' water utilities in fact carry a**  
3 **variety of potential risk, the largest of which is their raising need to repair and**  
4 **replace aging infrastructure, resulting in high capex requirements, low depreciation**  
5 **rates, and negative free cash flow, along with negative effects of regulatory lag on**  
6 **earnings"?<sup>19</sup>**

7 **A.** Any accretion in perceived risk for water utilities by the market will be reflected in the  
8 water utilities sample. Thus, Dr. Villadsen's choice not to use the water utilities sample  
9 due to the variability of the growth rates simply discards the market information available  
10 for the water utilities.

11  
12 **X. CONCLUSION**

13 **Q. Please summarize Staff's recommendations.**

14 **A.** Staff recommends that the Commission adopt a capital structure for Arizona-American in  
15 this proceeding composed of 61.14 percent debt and 38.86 percent equity.

16  
17 Staff also recommends that the Commission adopt a 10.7 percent ROE for the Company,  
18 based on Staff's cost of equity estimates that range from 9.7 percent to 10.0 percent for the  
19 sample companies and to reflect an 80 basis point upward financial risk adjustment.

20  
21 **Q. Does this conclude your direct testimony?**

22 **A.** Yes, it does.

---

<sup>19</sup> Direct Testimony of Dr. Villadsen, Arizona-American, Docket No. W-01303A-09-0343, page 32 lines 11-16

**Arizona - American Water Company Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Short Term & Long Term Debt	61.1%	4.91%	3.0%
Common Equity	38.9%	10.70%	<u>4.2%</u>
Weighted Average Cost of Capital			<b>7.2%</b>
Company Proposed Structure			
Debt	54.9%	5.5%	3.0%
Common Equity	45.2%	12.3%	<u>5.5%</u>
Weighted Average Cost of Capital			<b>8.5%</b>

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

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Arizona - American Water Company Cost of Capital Calculation  
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	Common <u>Equity</u>	<u>Total</u>
American States Water	48.4%	51.6%	100.0%
California Water	47.9%	52.1%	100.0%
Aqua America	52.7%	47.3%	100.0%
Connecticut Water	50.7%	49.3%	100.0%
Middlesex Water	53.2%	46.8%	100.0%
SJW Corp	<u>48.6%</u>	<u>51.4%</u>	<u>100.0%</u>
Average Sample Water Utilities	<b>50.2%</b>	<b>49.8%</b>	<b>100.0%</b>
Arizona - American - Capital Structure	<b>61.1%</b>	<b>38.9%</b>	<b>100.0%</b>

Source:

Sample Water Companies from Value Line

Arizona - American Water Company Cost of Capital Calculation  
Growth in Earnings and Dividends  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>Company</u>	<u>Dividends</u> <u>Per Share</u> <u>1998 to 2008</u> <u>DPS<sup>1</sup></u>	<u>Dividends</u> <u>Per Share</u> <u>Projected</u> <u>DPS<sup>1</sup></u>	<u>Earnings</u> <u>Per Share</u> <u>1998 to 2008</u> <u>EPS<sup>1</sup></u>	<u>Earnings</u> <u>Per Share</u> <u>Projected</u> <u>EPS<sup>1</sup></u>
American States Water	1.8%	4.6%	3.7%	10.9%
California Water	0.9%	2.8%	2.7%	6.9%
Aqua America	7.0%	5.0%	6.2%	11.4%
Connecticut Water	1.3%	No Projection	1.0%	No Projection
Middlesex Water	2.1%	No Projection	2.9%	No Projection
SJW Corp	5.5%	No Projection	3.0%	No Projection
Average Sample Water Utilities	3.1%	4.1%	3.3%	9.7%

1 Value Line

Arizona - American Water Company Cost of Capital Calculation  
Sustainable Growth  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 1999 to 2008 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 1999 to 2008 br + vs	Sustainable Growth Projected br + vs
American States Water	3.0%	6.4%	1.5%	4.5%	7.9%
California Water	2.0%	6.1%	3.8%	5.8%	10.0%
Aqua America	4.8%	5.7%	3.9%	8.6%	9.5%
Connecticut Water	2.6%	No Projection	0.8%	3.4%	No Projection
Middlesex Water	1.4%	No Projection	2.8%	4.2%	No Projection
SJW Corp	4.5%	No Projection	0.1%	4.6%	No Projection
Average Sample Water Utilities	3.0%	6.1%	2.2%	5.2%	9.1%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Arizona - American Water Company Cost of Capital Calculation  
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 1/6/2010	Book Value	Mkt To Book	Value Line Beta $\beta$	Raw Beta $\beta_{raw}$
American States Water	AWR	35.19	17.85	2.0	0.80	0.67
California Water	CWT	35.62	20.30	1.8	0.75	0.60
Aqua America	WTR	17.56	8.31	2.1	0.65	0.45
Connecticut Water	CTWS	23.55	12.71	1.9	0.85	0.75
Middlesex Water	MSEX	16.98	11.03	1.5	0.80	0.67
SJW Corp	SJW	22.51	14.93	1.5	0.95	0.90
Average				1.8	0.80	0.67

[C]: Men Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Arizona - American Water Company Cost of Capital Calculation  
Calculation of Expected Infinite Annual Growth in Dividends  
Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical <sup>1</sup>	3.1%
DPS Growth - Projected <sup>1</sup>	4.1%
EPS Growth - Historical <sup>1</sup>	3.3%
EPS Growth - Projected <sup>1</sup>	9.7%
Sustainable Growth - Historical <sup>2</sup>	5.2%
<u>Sustainable Growth - Projected<sup>2</sup></u>	<u>9.1%</u>
Average	5.8%

1 Schedule JCM-5

2 Schedule JCM-6

Arizona American Water  
 Sun City Water District  
 Tank Maintenance Plan  
 2010 - 2024



Engineer's Recommendations									
Item No.	Tank	Total	2010	2011	2012	2013	2014	CPI	
1	S.C. WP 1 TANK 1	\$ 190,094						1.03	1.0609
2	S.C. WP 1 TANK 2	\$ 195,046						1.092727	1.1255081
3	S.C. WP 2 TANK 1	\$ 207,563						1.159274074	
4	S.C. WP 2 TANK 2	\$ 213,736							
5	S.C. WP 2 TANK 3	\$ 214,003							
6	S.C. WP 3 TANK 1	\$ 303,951							
7	S.C. WP 3 TANK 2	\$ 297,753							
8	S.C. WP 5 TANK 1	\$ 450,709							
9	S.C. WP 5 TANK 2	\$ 487,396							
10	S.C. WP 6 TANK 1	\$ 628,850							
11	S.C. WP 6 TANK 2	\$ 579,815							
12	S.C. WP 8 TANK 1	\$ 316,949							
13	S.C. WP 8 TANK 2	\$ 315,895							
14	S.C. WP 9 TANK 1	\$ 668,867							
<b>Total</b>		<b>\$ 5,070,624</b>	<b>\$ 444,909</b>	<b>\$ 483,396</b>	<b>\$ 299,951</b>	<b>\$ 297,753</b>	<b>\$ 316,949</b>		
<b>Annual Average Over 14 Year Period</b>		<b>\$ 362,187</b>	<b>\$ -</b>	<b>\$ 464,000</b>	<b>\$ 464,000</b>	<b>\$ 464,000</b>	<b>\$ 464,000</b>		
<b>Annual (Over) Under recovered</b>		<b>\$ -</b>	<b>\$ 444,909</b>	<b>\$ 19,396</b>	<b>\$ (164,049)</b>	<b>\$ (166,247)</b>	<b>\$ (147,051)</b>		
<b>Cumulative (Over) Under Recovered</b>		<b>\$ -</b>	<b>\$ 444,909</b>	<b>\$ 464,304</b>	<b>\$ 300,255</b>	<b>\$ 134,007</b>	<b>\$ (13,044)</b>		

1.194052297	1.229873865	1.26670081	1.304773184	1.343916379	1.384233871	1.425760887	1.468533713	1.512589725
2015	2016	2017	2018	2019	2020	2021	2022	2023
\$ 188,294	\$ 1,800	\$ 193,246	\$ 1,800	\$ 205,763	\$ 1,800	\$ 211,936	\$ 1,800	\$ 212,203
\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800
\$ 314,095	\$ 1,800							
\$ 1,800								
\$ 315,895	\$ 190,094	\$ 195,046	\$ 207,563	\$ 213,736	\$ 214,003	\$ 632,850	\$ 583,815	\$ 674,667
\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000	\$ 464,000
\$ (148,105)	\$ (273,906)	\$ (268,954)	\$ (256,437)	\$ (250,264)	\$ (249,997)	\$ 168,850	\$ 119,815	\$ 210,667
\$ (161,149)	\$ (435,055)	\$ (704,009)	\$ (960,447)	\$ (1,210,711)	\$ (1,460,708)	\$ (1,291,858)	\$ (1,172,043)	\$ (961,376)
\$ 668,867								

\$ 4,000

\$ 4,000

\$ 627,050

\$ 1,800

\$ 578,015

\$ 1,800



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-01303A-09-0343  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN IT'S )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM )  
WATER DISTRICT AND ITS SUN CITY )  
WATER DISTRICT. )

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. SW-01303A-09-0343  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN IT'S )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM/ )  
AGUA FRIA WASTEWATER DISTRICT, )  
IT'S SUN CITY WASTEWATER DISTRICT, AND )  
IT'S SUN CITY WEST WASTEWATER DISTRICT)

DIRECT TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 8, 2010

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**EXECUTIVE SUMMARY**  
**ARIZONA AMERICAN WATER COMPANY, INC.**  
**DOCKET NOS. W-01303A-09-0343 AND SW-01303A-09-0343**

Arizona American Water Company Inc. ("AAWC" or "Company") is an Arizona for-profit Class A public service corporation that provides water and wastewater utility service in various communities throughout Arizona. This case is for the test year ended December 31, 2008.

On July 2, 2009, AAWC filed a general rate application. The Company has requested increases for five systems in this case. The testimony of Gary T. McMurry pertains to three of the five districts; Anthem/Agua Fria, Sun City, and Sun City West, all wastewater systems.

Anthem/Agua Fria

The Company proposes a revenue increase of \$7,060,837, or 81.75 percent, from \$8,637,123 to \$15,697,960 for the Anthem/Agua Fria wastewater district. The proposed rate increase would produce an operating income of \$4,071,858 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$47,735,732. Staff's revenue requirement of \$13,645,229 represents an increase of \$5,008,106, or 57.98 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$44,359,326.

Sun City

The Company proposes a revenue increase of \$2,156,882, or 36.31 percent, from \$5,940,381 to \$8,097,263 for the Sun City wastewater district. The proposed rate increase would produce an operating income of \$1,259,377 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$14,764,087. Staff's revenue requirement of \$7,556,858 represents an increase of \$1,616,477 or 27.21 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$14,672,152.

Sun City West

The Company proposes a revenue increase of \$1,480,756, or 26.15 percent, from \$5,661,710 to \$7,142,475 for the Sun City West wastewater district. The proposed rate increase would produce an operating income of \$1,520,155 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$17,821,272. Staff's revenue requirement of \$7,231,901 represents an increase of \$1,570,191, or 27.73 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$18,169,383.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Gary McMurry. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Please describe your educational background and professional experience.**

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Arizona. I have since been awarded two professional designations, as a Certified Fraud Examiner and as a Certified Internal Auditor; after successfully meeting the prescribed requirements established by each professional organization.

My prior work experience includes approximately twenty years of auditing (both internal and external), five additional years as a bank examiner, and two years of Investigations work. Prior to joining the Commission, I was employed by the Office of Audit and Analysis for the Department of Transportation primarily as a construction auditor.

In April 2007, I began employment at the Commission as a Public Utilities Analyst IV in the Finance and Regulatory Analysis Section. Since coming to the Commission, I have participated in a number of rate cases and other regulatory proceedings involving water and gas utilities. I have also attended various seminars and classes on general regulatory and business issues, including the National Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School and the Institute of Public Utilities Annual Regulatory Studies Program ("Camp NARUC").

1     **Q.     Briefly describe your responsibilities as a Public Utilities Analyst.**

2     A.     I am responsible for the examination and verification of financial and statistical  
3           information included in assigned utility rate applications and other financial regulatory  
4           matters. I develop revenue requirements, design rates, and prepare written reports,  
5           testimony and schedules to present Staff's recommendations to the Commission.

6  
7     **Q.     What is the purpose of your testimony in this case?**

8     A.     The purpose of my testimony is to present Staff's analysis and recommendations  
9           regarding the Arizona American Water Company Inc.'s ("AAWC" or "Company")  
10          application for a permanent rate increase. I will present recommendations in the areas of  
11          rate base, operating income, and the revenue requirement for the Anthem/Agua Fria, Sun  
12          City, and Sun City West wastewater districts. Staff witness Gerald W. Becker is  
13          presenting Staff's recommendations in the areas of rate base, operating income and the  
14          revenue requirement for the Anthem and Sun City water districts. Staff witness Juan  
15          Manrique is presenting Staff's cost of capital recommendations. Staff witness Jeff  
16          Michlik is presenting Staff's rate design. Staff witness Dorothy Hains is presenting  
17          Staff's engineering analysis and recommendations.

18  
19     **Q.     What is the basis of Staff's recommendations?**

20     A.     I have performed a regulatory audit of the Company's records to determine whether  
21           sufficient, relevant and reliable evidence exists to support the proposals in AAWC's rate  
22           application. My regulatory audit consisted of the following: (1) examining and testing  
23           AAWC's accounting ledgers, reports and supporting documents; (2) checking the  
24           accumulation of amounts in the records; (3) tracing recorded amounts to source  
25           documents; and (4) verifying that the Company-applied accounting principles were in  
26           accordance with the NARUC Uniform System of Accounts ("USOA").

1 **Q. How is your testimony organized?**

2 A. My testimony is presented in eleven sections. Section I is this introduction. Section II  
3 provides a background of the Company. Section III is a summary of consumer service  
4 issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's  
5 rate base and operating income adjustments. Section VI presents Staff's rate base  
6 recommendations regarding the Anthem/Agua Fria wastewater division. Section VII  
7 presents Staff's operating income adjustment recommendation regarding the  
8 Anthem/Agua Fria wastewater division. Section VIII presents Staff's rate base  
9 recommendations regarding the Sun City wastewater division. Section IX presents Staff's  
10 operating income adjustments regarding the Sun City wastewater division. Section X  
11 presents Staff's rate base recommendations regarding the Sun City West wastewater  
12 division. Section XI presents Staff's operating income adjustments regarding the Sun City  
13 West wastewater division.

14  
15 **Q. Have you prepared any schedules to accompany your testimony?**

16 A. Yes. I prepared schedules GTM-1 to GTM-19 for the Anthem/Agua Fria wastewater  
17 division, schedules GTM-1 to GTM-17 for the Sun City wastewater division and  
18 schedules GTM-1 to GTM-19 for the Sun City West wastewater division.

19  
20 **II. BACKGROUND**

21 **Q. What are the primary reasons for the Company's requested permanent rate**  
22 **increase?**

23 A. The Company's application states that it has lost over \$31 million since AWW purchased  
24 the assets of Citizens Water Resources in 2002 and that it lost \$1.8 million in 2008 and  
25 \$4.6 million in 2007. The Company further states that its times interest earned ratio

1 ("TIER") was 0.44 at the end of 2006 and 0.52 at the end of 2008. The Company states  
2 that a TIER of less than 1.0 is not sustainable in the long term.  
3

4 **Q. What test year did AAWC use in its filing?**

5 A. AAWC's rate filing is based on the twelve-month period that ended December 31, 2008.  
6

7 **Q. When were AAWC's present rates established?**

8 A. The Commission authorized the Company's present permanent rates for the Anthem/Agua  
9 Fria wastewater districts in Decision No. 70372, dated June 13, 2008. The Commission  
10 authorized the Company's present permanent rates for the Sun City and the Sun City West  
11 wastewater districts in Decision No. 70209, dated March 20, 2008.  
12

13 **III. CONSUMER SERVICE**

14 **Q. Please provide a brief summary of customer complaints received by the Commission**  
15 **regarding AAWC.**

16 A. Staff reviewed the Commission's records for the period January 1, 2006, through January  
17 1, 2009, and found:  
18

19 For the Anthem/Agua Fria Wastewater District there were five complaints (including  
20 billing, rates, and quality of service issues) and no opinions.  
21

22 For the Sun City Wastewater District there were one complaint (rates and tariff) and no  
23 opinions.  
24

25 For the Sun City West Wastewater District there were three complaints (two for billing  
26 issues and the other for rates) and no opinions.

The Company is in good standing with Corporations Division. The Company is current on all property and sales taxes.

**IV. SUMMARY OF PROPOSED REVENUES**

**Q. Please summarize the Company's filing for the Anthem/Agua Fria, Sun City, and Sun City West wastewater systems.**

**A.** The Company proposes the following revenues by district:

<u>System</u>	<u>Test Year Revenue</u>	<u>Company-Proposed</u>	<u>\$ Increase</u>	<u>% Increase</u>
Anthem/Agua Fria	\$8,637,123	\$15,697,960	\$7,060,837	81.8%
Sun City	\$5,940,381	\$8,097,263	\$2,156,882	36.3%
Sun City West	\$5,661,710	\$7,142,466	\$1,480,765	26.2%

The Company's proposed revenue, as filed, would provide an 8.53 percent rate of return on the proposed \$47,735,732 fair value rate base for the Anthem/Agua Fria division which is the same as the proposed original cost rate base. The Company's proposed revenue, as filed, would provide an 8.53 percent rate of return on the proposed \$14,764,087 fair value rate base for the Sun City wastewater division which is the same as the proposed original cost rate base. The Company's proposed revenue, as filed, would provide an 8.53 percent rate of return on the proposed \$17,821,339 fair value rate base for the Sun City West wastewater division which is the same as the proposed original cost rate base. The proposed rate bases are summarized in Section V.

**Q. Please summarize Staff's revenue requirement recommendation?**

**A.** The Staff recommends the following revenues by district:

<u>System</u>	<u>Test Year Revenue</u>	<u>Staff-Recommended</u>	<u>\$ Increase</u>	<u>% Increase</u>
Anthem/Agua Fria	\$8,637,123	\$13,645,229	\$5,008,106	58.0%
Sun City	\$5,940,381	\$7,556,858	\$1,616,477	27.2%
Sun City West	\$5,661,710	\$7,231,901	\$1,570,191	27.7%

Staff's recommended revenue would provide a 7.20 percent rate of return on the recommended \$44,359,326 fair value rate base for the Anthem/Agua Fria division which is the same as the proposed original cost rate base. Staff's recommended revenue would provide a 7.20 percent rate of return on the recommended \$14,672,152 fair value rate base for the Sun City wastewater division which is the same as the proposed original cost rate base. Staff's recommended revenue would provide a 7.20 percent rate of return on the recommended \$18,169,383 fair value rate base for the Sun City West wastewater division which is the same as the proposed original cost rate base. A summary of the recommended rate base for each district is presented in Section V.

**Q. Please compare Staff's revenue requirement recommendation to the Company's proposal.**

**A.** Below is a comparison of Staff's recommended and the Company's proposed revenue requirements:

<u>System</u>	<u>Company-Proposed</u>	<u>Staff-Recommended</u>	<u>\$ Difference</u>	<u>% Difference</u>
Anthem/Agua Fria	\$15,697,960	\$13,645,229	(\$2,052,731)	(13.1%)
Sun City	\$8,097,263	\$7,556,858	(\$540,405)	(6.7%)
Sun City West	\$7,142,475	\$7,231,901	\$89,426	1.3%

**V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME ADJUSTMENTS**

***Fair Value Rate Base***

**Q. Does AAWC's application include schedules with elements of a Reconstruction Cost New Rate Base?**

**A.** No. The Company's application does not request recognition of a Reconstruction Cost New Rate Base. Accordingly, Staff has treated the Company's original cost rate base ("OCRB") as its fair value rate base.

***Rate Base Summary***

**Q. Please summarize the Company's proposed and Staff's recommended rate base by division.**

**A. The Company-proposed and Staff-recommended rate base by division are presented below:**

<u>System</u>	<u>Company-Proposed</u>	<u>Staff-Recommended</u>	<u>\$ Difference</u>	<u>% Difference</u>
Anthem/Agua Fria	\$47,735,732	\$44,359,326	(\$3,376,406)	(7.1%)
Sun City	\$14,764,087	\$14,672,152	(\$91,935)	(0.6%)
Sun City West	\$17,821,339	\$18,169,383	\$348,044	2.0%

**Q. Please summarize Staff's rate base and operating income adjustments.**

**A. The following is a summary of Staff's rate base and operating income adjustments:**

***Anthem/Agua Fria Wastewater District Rate Base:***

Northwest Valley Regional Treatment Facility ("NWVRTF") – This \$1,039,823 downward adjustment reflects Staff's allocation of the NWVRTF cost based on anticipated future capacity between the Anthem/Agua Fria and the Sun City West districts.

Verrado – This adjustment removes \$1,838,637 pertaining to excess capacity.

Working Capital – This \$112,206 downward adjustment reflects Staff's recalculation of the Company's lead-lag analysis using Staff adjusted expenses.

Accumulated Deferred Income Taxes Debit – This \$27,084 downward adjustment reflects an amount consistent with that shown in the Company's audited financial statements.

1 Contributions in Aid of Construction ("CIAC") – This \$988,900 increase reflects reinstatement of  
2 the pro forma removal by the Company of CIAC associated with construction work in progress  
3 ("CWIP").

4  
5 Accumulated Depreciation – This \$630,244 downward adjustment reflects Staff's allocation of  
6 the NWVRTF accumulated depreciation based on anticipated future capacity between the  
7 Anthem/Agua Fria and the Sun City West districts.

8  
9 Generator Reclass – This adjustment reclassifies \$487,000 in costs from the Structures and  
10 Improvement Account to the Power Generator Account.

11  
12 ***Anthem/Agua Fria Wastewater District Operating Expenses:***

13 NWVRTF – This \$174,480 downward adjustment reflects Staff's allocation of the NWVRTF  
14 operating expenses between the Anthem/Agua Fria and the Sun City West districts.

15  
16 Power Adjustment – This \$580 upward adjustment reflects an annualization using the permanent  
17 rates authorized for APS.

18  
19 Bad Debt Expense – This adjustment reduces bad debt expense by \$36,308 to reflect  
20 annualization of bad debt expense using a three-year average.

21  
22 Water Testing Expense – This \$17,783 upward adjustment reflects an on-going expected average  
23 cost of water testing.

1 Depreciation Expense This \$449,348 downward adjustment reflects application of Staff's  
2 recommended depreciation rates to Staff's recommended plant amounts and amortization of  
3 Staff's CIAC balance.

4  
5 Property Taxes – This adjustment decreases test year property taxes by \$1,545 to reflect  
6 application of a modified version of the Arizona Department of Revenue's property tax  
7 methodology which the Commission has consistently adopted.

8  
9 Test Year Income Taxes – This adjustment increases test year income tax expense by \$291,044 to  
10 reflect application of statutory state and federal income tax rates to Staff adjusted taxable income.

11  
12 Rate Case Expense – This adjustment reduces rate case expense by \$12,500 to reflect the  
13 elimination of the prior rate case's unamortized rate case expense.

14  
15 ***Sun City Wastewater District Rate Base:***

16 Comprehensive Planning Study Costs – This \$12,242 downward adjustment reflects the transfer  
17 of costs from the Sun City Wastewater division to the Sun City West Wastewater division.

18  
19 Working Capital – This \$26,029 downward adjustment reflects Staff's recalculation of the  
20 Company's lead-lag analysis using Staff adjusted expenses.

21  
22 Accumulated Deferred Income Taxes – This \$47,072 downward adjustment reflects an amount  
23 consistent with that shown in the Company's audited financial statements.

24  
25 Contributions in Advance of Construction (CIAC) – This \$6,593 increase reflects reinstatement of  
26 the pro forma removal by the Company of CIAC associated with construction work in progress.

1 ***Sun City Wastewater District Operating Expenses:***

2 Power Adjustment – This \$2,746 upward adjustment reflects an annualization using the  
3 permanent rates authorized for APS.

4  
5 Bad Debt Expense – This adjustment reduces bad debt expense by \$50,872 to reflect the  
6 annualization of bad debt using a three-year average.

7  
8 Depreciation Expense – This \$131,647 downward adjustment reflects application of Staff's  
9 recommended depreciation rates to Staff's recommended plant amounts and the amortization of  
10 Staff's CIAC balance.

11  
12 Property Taxes – This \$15,545 downward adjustment reflects application of a modified version of  
13 the Arizona Department of Revenue's property tax methodology which the Commission has  
14 consistently adopted.

15  
16 Test Year Income Taxes – This adjustment increases test year income tax expense by \$80,285 to  
17 reflect application of statutory state and federal income tax rates to Staff adjusted taxable income.

18  
19 Rate Case Expense – This adjustment reduces rate case expense by \$9,406 to reflect the  
20 elimination of the prior rate case's unamortized rate case expense.

21  
22 ***Sun City West Wastewater District Rate Base:***

23 Northwest Valley Regional Treatment Facility (NWVRTF) – This \$1,039,823 upward adjustment  
24 reflects Staff's allocation of the NWVRTF cost based on anticipated future capacity between the  
25 Anthem/Agua Fria and the Sun City West districts.

1 Working Capital – This \$41,699 downward adjustment reflects Staff's recalculation of the  
2 Company's lead-lag analysis using Staff adjusted expenses.

3  
4 Accumulated Deferred Income Taxes Debit – This \$32,077 downward adjustment reflects an  
5 amount consistent with that shown in the Company's audited financial statements.

6  
7 Comprehensive Planning Study Costs – This \$12,242 upward adjustment reflects the transfer of  
8 costs to the Sun City West Wastewater division from the Sun City Wastewater division.

9  
10 Accumulated Depreciation – This \$630,244 upward adjustment reflects Staff's allocation of the  
11 NWVRTF accumulated depreciation based on anticipated future capacity between the  
12 Anthem/Agua Fria and the Sun City West districts.

13  
14 ***Sun City West Wastewater District Operating Expenses:***

15 Northwest Valley Regional Treatment Facility (NWVRTF) – This \$233,354 upward adjustment  
16 reflects Staff's allocation of the NWVRTF operating expenses between the Anthem/Agua Fria  
17 and the Sun City West districts.

18  
19 Power Adjustment – This \$147,515 upward adjustment reflects an annualization using the  
20 permanent rates authorized for APS.

21  
22 Bad Debt - This \$55,609 downward adjustment reflects an annualization using a three-year  
23 average.

24  
25 Water Testing Expense – This \$13,196 upward adjustment reflects an on-going expected average  
26 cost of water testing.

1 Depreciation Expense This \$111,301 upward adjustment reflects application of the Staff  
2 recommended depreciation rates to the Staff recommended plant amounts and the amortization of  
3 the Staff CIAC balances.

4  
5 Property Taxes – This \$89 upward adjustment reflects application of a modified version of the  
6 Arizona Department of Revenue’s property tax methodology which the Commission has  
7 consistently adopted.

8  
9 Test Year Income Taxes – This adjustment decreases test year income tax expense by \$174,035 to  
10 reflect application of statutory state and federal income tax rates to Staff adjusted taxable income.

11  
12 Rate Case Expense – This adjustment reduces rate case expense by \$9,406 to reflect the  
13 elimination of the prior rate case’s unamortized rate case expense.

14  
15 **VI. RATE BASE – ANTHEM/AGUA FRIA WASTEWATER**

16 ***Rate Base Adjustment No. 1 – Northwest Valley Regional Treatment Facility (NWVRTF)***

17 **Q. What does the Company propose with respect to the book value of the NWVRTF?**

18 A. The Company proposes \$8,318,584, a 32 percent allocation, of the total book value of the  
19 NWVRTF for the Anthem/Agua Fria Wastewater district.

20  
21 **Q. What is the basis for the Company’s 32 percent allocation factor?**

22 A. The Company used the same allocation percentage adopted in the prior rate case.

23  
24 **Q. On what basis was the allocation factor calculated in the prior rate case?**

25 A. The allocation factor was based on the anticipated relative capacity demand between the  
26 Agua Fria and Sun City West districts.

1 **Q. Have the relative anticipated capacity demands between the two districts changed**  
2 **since the prior rate case?**

3 A. Yes. Accordingly, the allocation percentages should be updated to reflect the current  
4 anticipated capacity demands. In the prior rate case, the allocation was 32 percent to  
5 Anthem/Agua Fria and 68 percent to Sun City West. Staff's update allocates 28 percent  
6 of the NWVRTF cost to Anthem/Agua Fria and 72 percent to Sun City West.

7  
8 **Q. Did the Commission foresee and anticipate that the cost allocation factor would**  
9 **change?**

10 A. Yes. Commission Decision No. 70372, issued June 13, 2008, foresaw this possibility and  
11 recommended that Staff revisit the cost allocation factor in the subsequent rate case.

12  
13 **Q. What is Staff recommending?**

14 A. Staff recommends a \$1,039,823 downward adjustment to reflect the four percent (32  
15 percent vs. 28 percent) lower cost allocation factor, as shown in GTM-5.

16  
17 ***Rate Base Adjustment No. 2 – Verrado WWTF***

18 **Q. What does the Company propose with respect to the Verrado WWTF?**

19 A. AAWC proposes the \$12,647,357 actual recorded cost of the Verrado Phase II WWTF.

20  
21 **Q. Does Staff agree with the Company's proposal?**

22 A. No. Staff has determined that the Verrado complex is overbuilt and under-utilized.

23  
24 **Q. Should plant that is not used and useful be included in rate base?**

25 A. No. A determination that plant is used and useful is a condition necessary for including  
26 plant in rate base.

1    **Q.    Is an adjustment to the plant's cost basis appropriate?**

2    A.    Yes. Staff has determined that the excess plant capacity should be excluded from rate  
3       base as it is not used and useful.

4  
5    **Q.    What is Staff recommending?**

6    A.    Staff recommends a \$1,838,637 downward adjustment to remove the portion of the plant,  
7       representing excess capacity, as shown in Schedule GTM-6.

8  
9    ***Rate Base Adjustment No. 3 – Cash Working Capital***

10   **Q.    Please describe the working capital adjustment to rate base.**

11   A.    Working capital is a collective term that typically includes amounts for prepaid expenses,  
12       materials and supplies inventory, and cash working capital. Staff Schedule GTM-3 shows  
13       the composition of the Company's working capital by component and Schedule GTM-7  
14       provides the calculation for Staff's recommended adjustment to the cash working capital  
15       component. Staff's adjustments relate to the cash working capital component only.

16  
17       The purpose of calculating cash working capital is to quantify the amount of cash that a  
18       company needs to operate by analyzing the timing differentials between the period  
19       required for revenues to be realized and collected and the periods between the date that an  
20       expense is incurred and the date paid. A lead lag study summarizes the differences  
21       between the collection of revenues and the payment of expenses and creates a cash  
22       working capital amount which is added or subtracted from the Company's rate base.

1    **Q.    Did the Company perform a lead-lag study and a computation of cash working**  
2       **capital in this case?**

3    A.    Yes. The Company's information supporting its cash working capital component is  
4       shown in Schedule GTM-7.

5  
6    **Q.    Was Staff able to use the Company's study to calculate cash working capital?**

7    A.    Yes.

8  
9    **Q.    Does Staff agree with the lag-days in the Company's lead lag study?**

10   A.    With one exception, Staff agrees with the number of lag-days proposed by the Company  
11       for its lead lag computation.

12  
13   **Q.    Please explain.**

14   A.    Staff does not agree with the Company's calculation of lag-days for its Customer  
15       Accounting Expense group. In this group, the Company incorrectly includes Bad Debt  
16       Expense. By including Bad Debt Expense in this line item calculation, the Company's  
17       lead lag days is reduced from 20.31 days to 10.09 days. This reduction increases the  
18       estimate of cash working capital needed by the Company.

19  
20   **Q.    What does Staff recommend for the treatment of Bad Debt Expense?**

21   A.    Staff recommends that bad debt expense not be considered in the lead lag computation,  
22       since bad debts have no associated cash outlay and, therefore, have no corresponding  
23       expense lag days. After excluding bad debt expense, the resulting expense lag-days for  
24       Customer Accounting is 20.31 days.

1     **Q.     Does Staff have other concerns with the computation of cash working capital?**

2     A.     Yes.

3

4     **Q.     Please explain.**

5     A.     In addition to the number of lead lag days assigned to each line item, the computation of  
6           cash working capital must reflect the adjusted value of expenses to which the lead lag days  
7           are applied. Accordingly, Staff's calculation reflects Staff's recommended expenses, as  
8           reflected in Schedule GTM-10, adjusted for the removal of Chemical Expense (dollars)  
9           and Bad Debt Expense (dollars) included in Customer Accounting Expense.

10

11    **Q.     Please explain the reasons to remove Chemical Expenses from the computation of**  
12    **cash working capital.**

13    A.     For all systems in this docket, the amounts recorded as Chemical Expenses do not  
14           constitute a direct cash expense. Instead, Chemical Expenses, as recorded by the  
15           Company, represent issuances from the Company's materials and supplies inventory  
16           which is already included in rate base as a separate component of the collective Working  
17           Capital calculation. Hence, the inclusion of amounts recorded as Chemical Expenses in  
18           the computation of the cash working capital component of the collective Working Capital  
19           computation would result in the double counting of this item in rate base.

20

21    **Q.     Please explain the reasons to remove Bad Debt Expense from the Customer**  
22    **Accounting Expense in the cash working capital computation.**

23    A.     Bad Debt expense does not represent a cash outlay like that experienced with other cash  
24           expenses; rather, Bad Debt expense represents amounts not collected. The provision for  
25           bad debt expense is included in rates and is collected on a timely basis from the paying

1 customers. For these reasons, Staff recommends that Bad Debt Expense not be considered  
2 in the computation of cash working capital.  
3

4 **Q. Did Staff prepare a schedule to present its lead-lag analysis?**

5 A. Yes. Schedule GTM-7 presents Staff's computation of cash working capital for the  
6 Anthem/Agua Fria Wastewater district and provides a comparison of the Staff  
7 recommended total with the Company's proposal.  
8

9 **Q. What does Staff recommend?**

10 A. Staff recommends cash working capital of \$173,460, a \$112,206 reduction from the  
11 Company's proposed \$285,666 amount, as shown for the Anthem/Agua Fria Wastewater  
12 district in Schedules GTM-4 and GTM-7.  
13

14 ***Rate Base Adjustment No. 4 – Accumulated Deferred Income Taxes***

15 **Q. What did the Company include in accumulated deferred income taxes?**

16 A. The Company proposes to allocate the total accumulated deferred income taxes for  
17 AAWC to each of its systems based on its four-factor allocation.  
18

19 **Q. How did Staff evaluate these items?**

20 A. Staff reviewed the calculation of accumulated deferred income taxes by attempting to  
21 reconcile the total amount subject to allocation to the amount reflected in the audited  
22 financial statements of the AWW.

1     **Q.     Was Staff able to reconcile the two amounts?**

2     A.     No. Staff noted that the total used by the Company to calculate its allocations is  
3             approximately \$13.026 million, while the accumulated deferred income tax receivable in  
4             the Company's audited financials is \$12.689 million, a difference of approximately  
5             \$336,000.

6  
7     **Q.     What does Staff recommend?**

8     A.     Staff recommends using the accumulated deferred tax balance in the Company's audited  
9             financial statements as the basis for allocation to the districts. Staff's calculation of the  
10            recommended amount is shown in Schedule GTM-8. Staff recommends a \$1,022,538  
11            accumulated deferred income tax debit (addition to rate base), a \$27,084 reduction from  
12            the Company's proposed amount of \$1,049,622.

13  
14     ***Rate Base Adjustment No. 5 – CIAC Associated with CWIP***

15     **Q.     Please describe how CIAC (and AIAC) relate to plant in service and rate base.**

16     A.     CIAC and AIAC represent funds or plant provided to the Company by parties other than  
17             investors. Typically, funds received as CIAC or AIAC are used to build plant which may  
18             ultimately be in rate base. Plant that is used and useful for the provision of utility service  
19             is a component of rate base. CIAC and AIAC are also components of rate base. As  
20             components of rate base, plant in service differs from CIAC and AIAC in that plant  
21             increases rate base and CIAC and AIAC decrease rate base. Plant that is under  
22             construction (CWIP) is normally not a component of the rate base calculation. Thus,  
23             funds or plant received as CIAC or AIAC that are funding CWIP are included in the rate  
24             base calculation while the CWIP is not included in the rate base calculation. As a result,  
25             the plant funded by CIAC or AIAC that is included in the rate base calculation may or

1 may not equal the CIAC and AIAC that has been received and is reflected in the rate base  
2 calculation.

3  
4 **Q. Please describe the Company's position.**

5 A. The Company asserts that it has received CIAC related to plant that is not yet completed  
6 (i.e., CWIP) and so not reflected in its rate base. The Company further states that since  
7 CWIP is not an addition to rate base, the related CIAC should not be a reduction in the  
8 rate base calculation.

9  
10 **Q. Is the Company's position a departure from traditional ratemaking practices?**

11 A. Yes. The Company's position is a departure from traditional ratemaking practices.  
12

13 **Q. Please explain.**

14 A. According to the NARUC USOA account no. 271, CIAC includes:

15  
16 *Any amount or item of money, services or property received by a utility[,] . . .*  
17 *any portion of which is provided at no cost to the utility, which represents an*  
18 *addition or transfer to the capital of the utility, and which is utilized to offset*  
19 *the acquisition, improvement or construction costs of the utility's property,*  
20 *facilities or equipment used to provide utility services to the public.*  
21 *(Emphasis added).*  
22

23 The Company has use of the funds or plant advanced or contributed by others, thereby  
24 offsetting the need for investors to commit funds for utility facilities or equipment.  
25

26 Further, the NARUC Rate Case and Audit Manual<sup>1</sup> instructs that the impact of such  
27 contributions for ratemaking is to "reduce the rate base as a source of non-investor

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<sup>1</sup> Rate Case and Audit Manual Prepared by NARUC Staff Subcommittee on Accounting and Finance (2003), p.22, available at [http://www.naruc.org/Publications/ratecase\\_manual.pdf](http://www.naruc.org/Publications/ratecase_manual.pdf).

1           supplied capital.” Accordingly, the Company’s rate base should be reduced by the amount  
2           of CIAC.

3  
4       **Q.     Did the Company request similar treatment of CIAC associated with CWIP in its last**  
5       **rate filing?**

6       A.     Yes. In the Company’s last rate case, Decision No. 71410, the Commission rejected the  
7       Company’s proposed treatment.

8  
9       **Q.     What does Staff recommend?**

10      A.     Staff recommends that the CIAC funds the Company asserts are associated with CWIP be  
11      reflected in the CIAC balances used to calculate and properly reflect a reduction to rate  
12      base. For the Anthem/Agua Fria Wastewater system, a \$988,900 adjustment to increase  
13      CIAC is appropriate, as shown in Schedule GTM-9A.

14  
15      ***Rate Base Adjustment No. 6 – Accumulated Depreciation***

16      **Q.     Has the Company proposed to allocate the accumulated depreciation on the**  
17      **NWVRTF between the Anthem/Agua Fria and Sun City West districts in the same**  
18      **percentages as it allocated the NWVRTF plant?**

19      A.     Yes. The Company allocated 32 percent of the accumulated depreciation related to the  
20      NWVRTF to the Anthem/Agua Fria district and 68 percent to the Sun City West district.

21  
22      **Q.     Should the same allocation percentages apply for both plant and accumulated**  
23      **depreciation?**

24      A.     Yes. The allocation percentages for the NWVRTF plant and accumulated depreciation  
25      should be the same. Since Staff rate base adjustment number one recommends allocating  
26      28 percent of the NWVRTF plant to the Anthem/Agua Fria district and 72 percent to the

1 Sun City West district, those same percentage should be applied to allocate the related  
2 accumulated depreciation.  
3

4 **Q. What does Staff recommend?**

5 A. Staff recommends transferring of \$630,244 in accumulated depreciation from the  
6 Anthem/Agua Fria district to the Sun City West district to provide the same allocation  
7 percentages for the NWVRTF plant and accumulated depreciation, as shown in Schedule  
8 GTM-9B.  
9

10 ***Rate Base Adjustment No. 7 – Power Generator Reclass***

11 **Q. Did the Company's recording of a power generator in the amount of \$487,000 follow**  
12 **the NARUC USOA guidelines?**

13 A. No. The Company recorded the generator in account no. 354400 Structures and  
14 Improvements. According to the NARUC USOA, the appropriate account to record the  
15 generator is Power Generation Equipment (account no. 355500).  
16

17 **Q. What does Staff recommend?**

18 A. Staff recommends reclassifying the \$487,000 from account no. 354400 Structures and  
19 Improvements to account no. 355500 Power Generation Equipment, as shown in GTM-  
20 9C.

**VII. OPERATING INCOME SUMMARY – ANTHEM/AGUA FRIA WASTEWATER**

***Operating Income Adjustment No. 1 – NWVRTF Operating Expenses***

**Q. What is the Company proposing for NWVRTF operating expenses?**

A. The Company proposes an amount that represents 32 percent of the NWVRTF operations and maintenance expenses that the Anthem/Agua Fria Wastewater district shares with the Sun City West Wastewater district.

**Q. What is the basis for the Company's 32 percent allocation factor?**

A. As discussed above in Staff rate base adjustment no. 1, the 32 percent allocation for Anthem/Agua Fria Wastewater is the percentage adopted in the prior rate case based on the anticipated relative capacity demand between the Agua Fria and the Sun City West districts. Staff has updated the expected relative capacity demands to 28 percent for Anthem/Agua Fria and 72 percent for Sun City West.

**Q. Is relative capacity demand the preferred method for allocating all NWVRTF expenses?**

A. No. Staff concludes that capacity demand is the appropriate basis for allocating fixed costs; however, variable costs are more appropriately allocated based on the relative test year treatment flows for the two districts. For purposes of this variable cost allocation, Staff recognized purchase power and chemical expense as variable expenses. Staff's variable cost allocation factors are 14 percent for the Anthem/Agua Fria district and 86 percent for Sun City West district.

**Q. What does Staff recommend?**

A. Staff recommends transferring \$174,480 of the proposed NWVRTF operating expenses from the Anthem/Agua Fria WW district and to Sun City West district.

***Operating Income Adjustment No. 2 – Power Expense***

**Q. What is the Company proposing for Fuel and Power Expense?**

A. The Company proposes \$278,664 (including NWVRTF) for Fuel and Power Expense. The amount proposed reflects an APS interim rate increase but not the permanent increase ultimately approved by the Commission.

**Q. Did the Company provide Staff with an updated calculation that reflects APS' permanent rate increase?**

A. Yes. The Company provided updated schedules to reflect the increase ultimately approved in the recent APS permanent rate case. The updated spreadsheet indicates that the Fuel and Power Expense is expected to increase by an additional \$23,384.

**Q. Does Staff agree with the \$23,384 additional power annualization to reflect the APS rate increase?**

A. Staff agrees that the annualization results in a \$23,384 increase in power cost. Staff has recognized this additional cost in its analysis; however, most of this cost is transferred to the Sun City West wastewater district as a component of the NWVRTF adjustment above. The net increase to the Anthem/Agua Fria district is \$580, as shown in schedule GTM-13.

**Q. What is Staff's recommendation for Fuel and Power Expense?**

A. Staff recommends a \$580 increase to Fuel and Power Expense to reflect the authorized permanent increase in APS' rates, as shown in Schedule GTM-13.

***Operating Income Adjustment No. 3 – Customer Accounting (Bad Debt) Expense***

**Q. What is the Company proposing for Customer Accounting Expense?**

A. AAWC is proposing the test year recorded amount and pro forma amounts to reflect customer annualization and increased postage expense for a total of \$242,170. This amount includes \$79,959 for Bad Debt Expense.

**Q. Is the Company's proposed amount for bad debt expense consistent with its recent experience?**

A. No. The Company provided Staff a spreadsheet detailing its three-year experience for Bad Debt Expense. In this schedule, the Company indicates that Bad Debt Expense is 0.51 percent of revenues. Applying the three-year average rate to Staff's adjusted test year revenues provides a normalized Bad Debt Expense of \$43,651, or \$36,308 less than proposed by the Company.

**Q. What is Staff recommending for Customer Accounting Expense?**

A. Staff is proposing a decrease to Customer Accounting Expense by \$36,308 from \$242,170 to \$205,862 to remove the excess Bad Debt Expense, as shown in Schedules GTM-11 and GTM-14. Staff further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Uncollectible expense, as shown in Schedule GTM-2.

***Operating Income Adjustment No. 4 – Water Testing Expense***

**Q. What is the Company proposing for Water Testing Expense, a component of Miscellaneous Expense?**

A. AAWC is proposing water testing expense of \$62,813, which is included the Miscellaneous Expenses of \$534,489 in the test year.

1     **Q.     Does Staff agree with the Company's proposed amount?**

2     A.     No. Staff has calculated the appropriate Water Testing Expense to be \$80,596, or \$17,783  
3             higher than the Company's proposed amount.

4  
5     **Q.     What is Staff's recommendation for Miscellaneous Expense?**

6     A.     Staff recommends a \$17,783 increase to Miscellaneous Expense, as shown in Schedule  
7             GTM-11 and Schedule GTM-15.

8  
9     *Operating Income Adjustment No. 5 – Depreciation Expense*

10    **Q.     What amount of depreciation expense is AAWC proposing?**

11    A.     AAWC is proposing depreciation expense of \$3,830,808.

12  
13    **Q.     What are the components of the Company's proposed depreciation expense?**

14    A.     AAWC proposes depreciation expense consisting of test year depreciation expense plus  
15             pro forma adjustments to recognize depreciation on post test year plant additions less the  
16             amortization of contributions in aid of construction.

17  
18    **Q.     How did AAWC calculate each component of its proposed depreciation expense?**

19    A.     The Company calculated test year depreciation expense by multiplying the original cost of  
20             its depreciable test year plant in service by the depreciation rates approved in the prior rate  
21             proceeding.

22  
23    **Q.     Did Staff recompute the Company's depreciation expense?**

24    A.     Yes. Staff recomputed depreciation expense based on Staff's recommended plant by  
25             account and the depreciation rates proposed in this proceeding. Staff uses the same  
26             methodology as the Company to calculate depreciation expense. Staff's calculation

1 differs from the Company's due primarily to the use of Staff's recommended depreciation  
2 rates in this proceeding and Staff's different allocation of the NWVRTF. Staff and the  
3 Company reduced depreciation expense for the amortization of contributions-in-aid-of-  
4 construction in accordance with the NARUC USOA.

5  
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends a \$449,348 decrease in depreciation expense from \$3,830,808 to  
8 \$3,381,460, as shown in Schedule GTM-11 and Schedule GTM-16.

9  
10 ***Operating Income Adjustment No. 6 – Property Tax Expense***

11 **Q. What is the Company proposing for Test Year Property Tax Expense?**

12 A. AAWC is proposing \$296,804 for test year property tax expense.

13  
14 **Q. How did the Company calculate property tax expense?**

15 A. The Company's proposed property tax expense is calculated on a modified Arizona  
16 Department of Revenue ("ADOR") methodology typically adopted by the Commission for  
17 water and wastewater utilities. The results from using this methodology are primarily  
18 dependent upon the test year and proposed revenues. In other words, for each revenue  
19 requirement, there is a specific property tax expense in the same manner as each operating  
20 income has a specific income tax expense. Although the results for this methodology are  
21 frequently referred to as test year amount, in fact, the results are representative of the  
22 average expected property tax over a subsequent three-year period based partially on  
23 authorized revenues. The Company's calculation of proposed property taxes is static, thus  
24 only representative of a specific proposed revenue level. Therefore, if the Commission  
25 adopts any revenue requirement other than that proposed by the Company, the Company's  
26 proposed property tax would not correspond with the adopted revenues.

1   **Q.    Has Staff developed a solution to address the dependent relationship between**  
2       **Property Tax expense and revenues?**

3    A.   Yes. Staff has included a factor for property taxes in the GRCF (see Schedule GTM-2)  
4       that automatically adjusts the revenue requirement for changes in revenue in the same way  
5       that income taxes are adjusted for changes in operating income. This flexible method will  
6       accurately reflect Property Tax expense at any authorized revenue level. This refinement  
7       removes the need to include proposed revenues in the calculation of test year Property Tax  
8       expense and allows for accurate calculation of Property Tax expense at the test year  
9       revenue level.

10  
11   **Q.    What is Staff recommending for test year Property Tax expense?**

12   A.   Staff recommends \$298,349 for test year property tax expense, a \$1,545 reduction from  
13       the Company's proposed amount, as shown in Schedule GTM-17.<sup>2</sup> Staff further  
14       recommends adoption of its GRCF that includes a factor for Property Tax expense, as  
15       shown in Schedule GTM-2.

16  
17   *Operating Income Adjustment No. 7 – Income Tax Expense*

18   **Q.    What is the Company proposing for Test Year Income Tax Expense?**

19   A.   AAWC is proposing negative \$1,020,813 for Test Year Income Tax Expense.  
20

21   **Q.    How did Staff calculate Test Year Income Tax Expense?**

22   A.   Staff calculated Test Year Income Tax expense by applying the statutory State and Federal  
23       income tax rates to Staff's adjusted test year taxable loss, as shown in Schedule GTM-2.  
24       Since the Company files a consolidated tax return with other systems and the average and

---

<sup>2</sup> Schedule GTM-17 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1           marginal federal tax rates are 34 percent when federal taxable income is over \$335,000,  
2           Staff has assigned a 34 percent federal tax rate to the test year income.

3  
4       **Q.     Did Staff make any adjustment to test year income tax expense?**

5       A.     Yes. Staff's adjustment reflects application of the statutory State and Federal income tax  
6           rates to Staff's taxable income, as shown in GTM-2 and GTM-10.

7  
8       **Q.     What is Staff recommending?**

9       A.     Staff recommends a negative \$729,769 Test Year Income Tax expense representing an  
10           increase of \$291,044, as shown in Schedule GTM-2 and GTM-18.

11  
12       *Operating Income Adjustment No. 8 – Rate Case Expense*

13       **Q.     What did the Company include in rate case expense?**

14       A.     In its calculation of rate case expense, the Company included \$12,500 for its "Expected  
15           Unamortized Balance as of 9/2010" of \$37,500 to be recovered over three years, along  
16           with the estimated rate case expense of the instant proceeding.

17  
18       **Q.     Please explain Staff's position.**

19       A.     Consistent with past recommendations adopted by the Commission, Staff recommends  
20           exclusion of unrecovered rate case expense from prior proceedings. Staff's  
21           recommendation reflects "normalization" as opposed to "amortization" of rate case  
22           expense.

23  
24       **Q.     Please explain the technical distinction between normalization and amortization.**

25       A.     Normalization represents the anticipated average annual expense and the amount included  
26           in test year expenses. The normalized level of expense is then updated in subsequent

1 proceedings and included as test year expense in the future proceeding with no  
2 consideration of unrecovered amounts associated with activity in the prior case. In  
3 contrast, amortization relates to the systematic recovery of an asset, or in the case of  
4 CIAC, amortization is the systematic disposition of the cost free funds or property  
5 received. In accounting terms, assets and CIAC are balance sheet, or permanent, accounts  
6 with balances that carry over from prior years; therefore, unamortized asset and CIAC  
7 balances are eligible for consideration in future rates. In contrast, normalized expenses are  
8 operating income, or temporary, accounts which are closed out each year and not eligible  
9 for consideration in future rates.

10  
11 **Q. What does Staff recommend?**

12 A. As shown in Schedule GTM-19, Staff recommends a decrease of \$12,500 to Rate Case  
13 Expense for the amount that the Company proposes to include from prior proceedings.  
14

15 **VIII. RATE BASE – SUN CITY WASTEWATER**

16 *Rate Base Adjustment No. 1 – Comprehensive Planning Study Cost*

17 **Q. What is the Company proposing for Account No. 389600 Other Plant and**  
18 **Miscellaneous Equipment?**

19 A. AAWC is proposing its recorded balance of \$12,242.  
20

21 **Q. Was the Comprehensive Planning Study conducted for the Sun City Wastewater**  
22 **district?**

23 A. No, the study was performed for the Sun City West district. Therefore, the costs should be  
24 transferred to the proper district.

1     **Q.     What is Staff recommending?**

2     A.     Staff recommends an adjustment decreasing Sun City account no. 389600 by \$12,242, as  
3           shown in Schedules GTM-4 and GTM-5. Staff is recommending a corresponding  
4           adjustment to increase Sun City West account no. 360000 WW Collection Sewers Forced  
5           by the same amount.  
6

7     ***Rate Base Adjustment No. 2 – Working Capital***

8     **Q.     Please describe the working capital adjustment to rate base.**

9     A.     Working capital is a collective term that typically includes amounts for prepaid expenses,  
10           materials and supplies inventory, and cash working capital. Staff Schedule GTM-3 shows  
11           the composition of the Company's working capital by component and Schedule GTM-6  
12           provides the calculation for Staff's recommended adjustment to the cash working capital  
13           component. Staff's adjustment relates to the cash working capital component only.  
14

15           The purpose of calculating cash working capital is to quantify the amount of cash that a  
16           company needs to operate by analyzing the timing differentials between the period  
17           required for revenues to be realized and collected and the periods between the date that an  
18           expense is incurred and the date paid. A lead lag study summarizes the differences  
19           between the collection of revenues and the payment of expenses and creates a cash  
20           working capital amount which is added or subtracted from the Company's rate base.  
21

22     **Q.     Did the Company perform a lead-lag study and a computation of cash working**  
23           **capital in this case?**

24     A.     Yes. The Company's information supporting its cash working capital component is  
25           shown in Schedule GTM-6.

1     **Q.     Was Staff able to use the Company's study to calculate cash working capital?**

2     A.     Yes.

3

4     **Q.     Does Staff agree with the lag-days in the Company's lead lag study?**

5     A.     With one exception, Staff agrees with the number of lag-days proposed by the Company  
6           for its lead lag computation.

7

8     **Q.     Please explain.**

9     A.     Staff does not agree with the Company's calculation of lag-days for its Customer  
10          Accounting Expense group. In this group, the Company incorrectly includes Bad Debt  
11          Expense. By including Bad Debt Expense in this line item calculation, the Company's  
12          lead lag days is reduced from 20.31 days to 10.09 days. This reduction increases the  
13          estimate of cash working capital needed by the Company.

14

15    **Q.     What does Staff recommend for the treatment of Bad Debt Expense?**

16    A.     Staff recommends that bad debt expense not be considered in the lead lag computation,  
17          since bad debts have no associated cash outlay and, therefore, no corresponding expense  
18          lag days. After excluding bad debt expense, the resulting expense lag-days for Customer  
19          Accounting is 20.31 days.

20

21    **Q.     Does Staff have other concerns with the computation of cash working capital?**

22    A.     Yes.

23

24    **Q.     Please explain.**

25    A.     In addition to the number of lead lag days assigned to each line item, the computation of  
26          cash working capital must reflect the adjusted value of expenses to which the lead lag days

1 are applied. Accordingly, Staff's calculation reflects Staff's recommended expenses, as  
2 reflected in Schedule GTM-10, adjusted for the removal of Chemical Expense (dollars)  
3 and Bad Debt Expense (dollars) included in Customer Accounting Expense.  
4

5 **Q. Please explain the reasons to remove Chemical Expenses from the computation of**  
6 **cash working capital.**

7 A. For all systems in this docket, the amounts recorded as Chemical Expenses do not  
8 constitute a direct cash expense. Instead, Chemical Expenses, as recorded by the  
9 Company, represent issuances from the Company's materials and supplies inventory  
10 which is already included in rate base as a separate component of the collective Working  
11 Capital calculation. Hence, the inclusion of amounts recorded as Chemical Expenses in  
12 the computation of the cash working capital component of the collective Working Capital  
13 computation would result in the double counting of this item in rate base.  
14

15 **Q. Please explain the reasons to remove Bad Debt Expense from the Customer**  
16 **Accounting Expense in the cash working capital computation.**

17 A. Bad Debt expense does not represent a cash outlay like that experienced with other cash  
18 expenses; rather, Bad Debt expense represents amounts not collected. The provision for  
19 bad debt expense is included in rates and is collected on a timely basis from the paying  
20 customers. For these reasons, Staff recommends that Bad Debt Expense not be considered  
21 in the computation of cash working capital.  
22

23 **Q. Did Staff prepare a schedule to present its lead-lag analysis?**

24 A. Yes. Schedule GTM-6 presents Staff's computation of cash working capital for the Sun  
25 City Wastewater district and provides a comparison of the Staff-recommended total with  
26 the Company's proposal.

1 **Q. What does Staff recommend?**

2 A. Staff recommends cash working capital of \$103,799, a \$26,028 reduction from the  
3 Company's proposed \$129,827 amount, as shown for the Sun City Wastewater district in  
4 Schedules GTM-4 and GTM-6.

5  
6 ***Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes***

7 **Q. What did the Company include in accumulated deferred income taxes?**

8 A. The Company proposes to allocate the total accumulated deferred income taxes for  
9 AAWC to each of its systems based on its four-factor allocation.

10  
11 **Q. How did Staff evaluate these items?**

12 A. Staff reviewed the calculation of accumulated deferred income taxes by attempting to  
13 reconcile the total amount subject to allocation to the amount reflected in the audited  
14 financial statements of AWWC.

15  
16 **Q. Was Staff able to reconcile the two amounts?**

17 A. No. Staff noted that the total used by the Company to calculate its allocations is  
18 approximately \$13.026 million, while the accumulated deferred income tax receivable in  
19 the Company's audited financials is \$12.689 million, a difference of approximately  
20 \$336,000.

21  
22 **Q. What does Staff recommend?**

23 A. Staff recommends using the accumulated deferred tax balance in the Company's audited  
24 financial statements as the basis for allocation to the districts. Staff's calculation of the  
25 recommended amount is shown in Schedule GTM-7. Staff recommends a \$1,777,183

1 accumulated deferred income tax debit (addition to rate base), a \$47,072 reduction from  
2 the Company's proposed amount of \$1,824,256.  
3

4 ***Rate Base Adjustment No. 4 – CIAC Associated with CWIP***

5 **Q. Please describe how CIAC (and AIAC) relate to plant in service and rate base.**

6 A. CIAC and AIAC represent funds or plant provided to the Company by parties other than  
7 investors. Typically, funds received as CIAC or AIAC are used to build plant which may  
8 ultimately be in rate base. Plant that is used and useful for the provision of utility service  
9 is a component of rate base. CIAC and AIAC are also components of rate base. As  
10 components of rate base, plant in service differs from CIAC and AIAC in that plant  
11 increases rate base and CIAC and AIAC decrease rate base. Plant that is under  
12 construction (CWIP) is normally not a component of the rate base calculation. Thus,  
13 funds or plant received as CIAC or AIAC that are funding CWIP are included in the rate  
14 base calculation while the CWIP is not included in the rate base calculation. As a result,  
15 the plant funded by CIAC or AIAC that is included in the rate base calculation may or  
16 may not equal the CIAC and AIAC that has been received and is reflected in the rate base  
17 calculation.  
18

19 **Q. Please describe the Company's position.**

20 A. The Company asserts that it has received CIAC related to plant that is not yet completed  
21 (i.e., CWIP) and so not reflected in its rate base. The Company further states that since  
22 CWIP is not an addition to rate base, the related CIAC should not be a reduction in the  
23 rate base calculation.  
24

25 **Q. Is the Company's position a departure from traditional ratemaking practices?**

26 A. Yes. The Company's position is a departure from traditional ratemaking practices.

1     **Q.     Please explain.**

2     A.     According to the NARUC USOA account no. 271, CIAC includes:

3  
4             *Any* amount or item of money, services or property received by a utility[,] . . .  
5             any portion of which is provided at no cost to the utility, which represents an  
6             addition or transfer to the capital of the utility, and which is utilized to offset  
7             the acquisition, improvement or construction costs of the utility's property,  
8             facilities or equipment used to provide utility services to the public.  
9             (Emphasis added).

10

11            The Company has use of the funds or plant advanced or contributed by others, thereby  
12            offsetting the need for investors to commit funds for utility facilities or equipment.

13

14            Further, the NARUC Rate Case and Audit Manual<sup>3</sup> instructs that the impact of such  
15            contributions for ratemaking is to "reduce the rate base as a source of non-investor  
16            supplied capital." Accordingly, the Company's rate base should be reduced by the amount  
17            of CIAC.

18

19     **Q.     Did the Company request similar treatment of CIAC associated with CWIP in its last**  
20     **rate filing?**

21     A.     Yes. In the Company's last rate case, Decision No. 71410, the Commission rejected the  
22     Company's proposed treatment.

23

24     **Q.     What does Staff recommend?**

25     A.     Staff recommends that the CIAC the Company asserts are associated with CWIP be  
26     reflected in the CIAC balances used to calculate and properly reflect a reduction to rate  
27     base. For the Sun City WW System, a \$6,593 adjustment to increase CIAC is appropriate.

28

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<sup>3</sup> Rate Case and Audit Manual Prepared by NARUC Staff Subcommittee on Accounting and Finance (2003), p.22, available at [http://www.naruc.org/Publications/ratecase\\_manual.pdf](http://www.naruc.org/Publications/ratecase_manual.pdf).

**IX. OPERATING INCOME SUMMARY – SUN CITY WASTEWATER**

***Operating Income Adjustment No. 1 – Fuel and Power Expense***

**Q. What is the Company proposing for Fuel and Power Expense?**

A. The Company proposes \$15,804 for Fuel and Power Expense. The amount proposed reflects an APS interim rate increase but not the permanent increase ultimately approved by the Commission.

**Q. Did the Company's provide Staff with an updated calculation that reflects APS' permanent rate increase?**

A. Yes. The Company provided updated schedules to reflect the increase ultimately approved in the recent APS permanent rate case. The updated spreadsheet indicates that the Fuel and Power Expense is expected to increase by an additional \$2,746.

**Q. What is Staff's recommendation for Fuel and Power Expense?**

A. Staff recommends a \$2,746 increase to Fuel and Power Expense to reflect the authorized permanent increase in APS' rates, as shown in Schedule GTM-12.

***Operating Income Adjustment No. 2 – Customer Accounting (Bad Debt) Expense***

**Q. What is the Company proposing for Customer Accounting Expense?**

A. AAWC is proposing the test year recorded amount and pro forma amounts to reflect customer annualization and increased postage expense for a total of \$145,686. This amount includes \$58,430 for Bad Debt Expense.

1    **Q.    Is the Company's proposed amount for bad debt expense consistent with its recent**  
2       **experience?**

3    A.    No. The Company provided Staff a spreadsheet detailing its three-year experience for  
4       Bad Debt Expense. In this schedule, the Company indicates that Bad Debt Expense is  
5       0.13 percent of revenues. Applying the three-year average rate to Staff's adjusted test  
6       year revenues provides a normalized Bad Debt Expense of \$7,558, or \$50,872 less than  
7       proposed by the Company.

8  
9    **Q.    What is Staff recommending for Customer Accounting Expense?**

10   A.   Staff is proposing a decrease to Customer Accounting Expense by \$50,872, from  
11       \$145,686 to \$94,814 to remove the excess Bad Debt Expense, as shown in Schedules  
12       GTM-11 and GTM-13. Staff further recommends adoption of its GRCF that includes a  
13       factor for Uncollectible expense, as shown in Schedule GTM-2.

14  
15   ***Operating Income Adjustment No. 3 – Depreciation Expense***

16   **Q.    What amount of depreciation expense is AAWC proposing?**

17   A.   AAWC is proposing depreciation expense of \$679,999.

18  
19   **Q.    What are the components of the Company's proposed depreciation expense?**

20   A.   AAWC proposes depreciation expense consisting of test year depreciation expense plus  
21       pro forma adjustments to recognize depreciation on post test year plant additions less the  
22       amortization of contributions in aid of construction.

1     **Q.     How did AAWC calculate each component of its proposed depreciation expense?**

2     A.     The Company calculated test year depreciation expense by multiplying the original cost of  
3             its depreciable test year plant in service by the depreciation rates approved in the prior rate  
4             proceeding.

5  
6     **Q.     Did Staff recompute the Company's depreciation expense?**

7     A.     Yes. Staff recomputed depreciation expense based on Staff's recommended plant by  
8             account and the depreciation rates proposed in this proceeding. Staff uses the same  
9             methodology as the Company to calculate depreciation expense. Staff's calculation  
10            differs from the Company's due primarily to the use of Staff's recommended depreciation  
11            rates in this proceeding. Staff and the Company reduced depreciation expense for the  
12            amortization of CIAC in accordance with the NARUC USOA.

13  
14    **Q.     What is Staff's recommendation?**

15    A.     Staff recommends a decrease in depreciation expense of \$131,647, from \$679,999 to  
16             \$548,352.

17  
18    ***Operating Income Adjustment No. 4 – Property Tax Expense***

19    **Q.     What is the Company proposing for Test Year Property Tax Expense?**

20    A.     AAWC is proposing \$157,456 for test year property tax expense.

21  
22    **Q.     How did the Company calculate property tax expense?**

23    A.     The Company's proposed property tax expense is calculated on a modified ADOR  
24             methodology typically adopted by the Commission for water and wastewater utilities. The  
25             results from using this methodology are primarily dependent upon the test year and  
26             proposed revenues. In other words, for each revenue requirement, there is a specific

1 property tax expense in the same manner as each operating income has a specific income  
2 tax expense. Although the results for this methodology are frequently referred to as test  
3 year amount, in fact, the results are representative of the average expected property tax  
4 over a subsequent three-year period based partially on authorized revenues. The  
5 Company's calculation of proposed property taxes is static, thus only representative of a  
6 specific proposed revenue level. Therefore, if the Commission adopts any revenue  
7 requirement other than that proposed by the Company, the Company's proposed property  
8 tax would not correspond with the adopted revenues.

9  
10 **Q. Has Staff developed a solution to address the dependent relationship between**  
11 **Property Tax expense and revenues?**

12 A. Yes. Staff has included a factor for property taxes in the GRCF (see Schedule GTM-2)  
13 that automatically adjusts the revenue requirement for changes in revenue in the same way  
14 that income taxes are adjusted for changes in operating income. This flexible method will  
15 accurately reflect Property Tax expense at any authorized revenue level. This refinement  
16 removes the need to include proposed revenues in the calculation of test year Property Tax  
17 expense and allows for accurate calculation of Property Tax expense at the test year  
18 revenue level.

19  
20 **Q. What is Staff recommending for test year Property Tax expense?**

21 A. Staff recommends \$141,911 for test year property tax expense, a \$15,545 reduction from  
22 the Company's proposed amount as shown in Schedule GTM-15.<sup>4</sup> Staff further  
23 recommends adoption of its GRCF that includes a factor for Property Tax expense as  
24 shown in Schedule GTM-2 and GTM-15.

---

<sup>4</sup> Schedule GTM-15 also shows calculations for Property Tax Expense for Staff's recommended revenue.

***Operating Income Adjustment No. 5 – Income Tax Expense***

**Q. What is the Company proposing for Test Year Income Tax Expense?**

A. AAWC is proposing negative \$310,869 for Test Year Income Tax Expense.

**Q. How did Staff calculate Test Year Income Tax Expense?**

A. Staff calculated Test Year Income Tax expense by applying the statutory State and Federal income tax rates to Staff's adjusted test year taxable loss, as shown in Schedule GTM-2. Since the Company files a consolidated tax return with other systems and the average and marginal federal tax rates are 34 percent when federal taxable income is over \$335,000, Staff has assigned a 34 percent federal tax rate to the test year income.

**Q. Did Staff make any adjustments to test year income tax expense?**

A. Yes. Staff's adjustment reflects application of the statutory State and Federal income tax rates to Staff's taxable income, as shown in GTM-2 and GTM-10.

**Q. What is Staff recommending?**

A. Staff recommends an increase of \$80,085 in Test Year Income Tax expense, from negative \$310,869 to negative \$230,784, as shown in Schedule GTM-2 and GTM-16.

***Operating Income Adjustment No. 6 – Rate Case Expense***

**Q. What did the Company include in rate case expense?**

A. In its calculation of rate case expense, the Company included \$9,406 for its "Expected Unamortized Balance as of 9/2010" of \$28,218 to be recovered over three years, along with the estimated rate case expense of the instant proceeding.

1     **Q.     Please explain Staff's position.**

2     A.     Consistent with past recommendations adopted by the Commission, Staff recommends  
3           exclusion of unrecovered rate case expense from prior proceedings. Staff's  
4           recommendation reflects "normalization" as opposed to "amortization" of rate case  
5           expense.

6  
7     **Q.     Please explain the technical distinction between normalization and amortization.**

8     A.     Normalization represents the anticipated average annual expense and the amount included  
9           in test year expenses. The normalized level of expense is then updated in subsequent  
10          proceedings and included as test year expense in the future proceeding with no  
11          consideration of unrecovered amounts associated with activity in the prior case. In  
12          contrast, amortization relates to the systematic recovery of an asset, or in the case of  
13          CIAC, amortization is the systematic disposition of the cost free funds or property  
14          received. In accounting terms, assets and CIAC are balance sheet, or permanent, accounts  
15          with balances that carry over from prior years; therefore, unamortized asset and CIAC  
16          balances are eligible for consideration in future rates. In contrast, normalized expenses are  
17          operating income, or temporary, accounts which are closed out each year and not eligible  
18          for consideration in future rates.

19  
20    **Q.     What does Staff recommend?**

21    A.     As shown in Schedule GTM-17, Staff recommends a decrease of \$9,406 to Rate Case  
22          Expense for the amount that the Company proposes to include from prior proceedings.

**X. RATE BASE - SUN CITY WEST WASTEWATER**

***Rate Base Adjustment No. 1 – Northwest Valley Regional Treatment Facility***

**Q. What does the Company propose with respect to the book value of the NWVRTF?**

A. The Company proposes \$17,676,994, a 68 percent allocation, of the total book value of the NWVRTF for the Sun City West Wastewater ("SCWW") district.

**Q. What is the basis for the Company's 68 percent allocation factor?**

A. The Company used the same allocation percentage adopted in the prior rate case.

**Q. On what basis was the allocation factor calculated in the prior rate case?**

A. The allocation factor was based on the anticipated relative capacity demand between the Agua Fria and Sun City West districts.

**Q. Have the relative anticipated capacity demands between the two districts changed since the prior rate case?**

A. Yes. Accordingly, the allocation percentages should be updated to reflect the current anticipated capacity demands. In the prior rate case, the allocation was 32 percent to Anthem/Agua Fria and 68 percent to Sun City West. Staff's update allocates 28 percent of the NWVRTF cost to Anthem/Agua Fria and 72 percent to Sun City West.

**Q. Did the Commission foresee and anticipate that the cost allocation factor would change?**

A. Yes. Commission Decision No. 70372, issued June 13, 2008, foresaw this possibility and recommended that Staff revisit the cost allocation factor in the subsequent rate case.

1     **Q.     What is Staff recommending?**

2     A.     Staff recommends a \$1,039,823 upward adjustment to reflect the four percent (72 percent  
3             vs. 68 percent) higher cost allocation factor, as shown in GTM-5.

4  
5     ***Rate Base Adjustment No. 2 – Cash Working Capital***

6     **Q.     Please describe the working capital adjustment to rate base.**

7     A.     Working capital is a collective term that typically includes amounts for prepaid expenses,  
8             materials and supplies inventory, and cash working capital. Staff Schedule GTM-3 shows  
9             the composition of the Company's working capital by component and Schedule GTM-6  
10            provides the calculation for Staff's recommended adjustment to the cash working capital  
11            component. Staff's adjustments relate to the cash working capital component only.

12  
13            The purpose of calculating cash working capital is to quantify the amount of cash that a  
14            company needs to operate by analyzing the timing differentials between the period  
15            required for revenues to be realized and collected and the periods between the date that an  
16            expense is incurred and the date paid. A lead lag study summarizes the differences  
17            between the collection of revenues and the payment of expenses and creates a cash  
18            working capital amount which is added or subtracted from the Company's rate base.

19  
20     **Q.     Did the Company perform a lead-lag study and a computation of cash working**  
21             **capital in this case?**

22     A.     Yes. The Company's information supporting its cash working capital component is  
23             shown in Schedule GTM-6.

24  
25     **Q.     Was Staff able to use the Company's study to calculate cash working capital?**

26     A.     Yes.

1     **Q.     Does Staff agree with the lag-days in the Company's lead lag study?**

2     A.     With one exception, Staff agrees with the number of lag-days proposed by the Company  
3             for its lead lag computation.

4  
5     **Q.     Please explain.**

6     A.     Staff does not agree with the Company's calculation of lag-days for its Customer  
7             Accounting Expense group. In this group, the Company incorrectly includes Bad Debt  
8             Expense. By including Bad Debt Expense in this line item calculation, the Company's  
9             lead lag days is reduced from 20.31 days to 10.09 days. This reduction increases the  
10            estimate of cash working capital needed by the Company.

11  
12    **Q.     What does Staff recommend for the treatment of Bad Debt Expense?**

13    A.     Staff recommends that bad debt expense not be considered in the lead lag computation,  
14             since bad debts have no associated cash outlay and, therefore, have no corresponding  
15             expense lag days. After excluding bad debt expense, the resulting expense lag-days for  
16             Customer Accounting is 20.31 days.

17  
18    **Q.     Does Staff have other concerns with the computation of cash working capital?**

19    A.     Yes.

20  
21    **Q.     Please explain.**

22    A.     In addition to the number of lead lag days assigned to each line item, the computation of  
23             cash working capital must reflect the adjusted value of expenses to which the lead lag days  
24             are applied. Accordingly, Staff's calculation reflects Staff's recommended expenses, as  
25             reflected in Schedule GTM-10, adjusted for the removal of Chemical Expense (dollars)  
26             and Bad Debt Expense (dollars) included in Customer Accounting Expense.

1     **Q.     Please explain the reasons to remove Chemical Expenses from the computation of**  
2     **cash working capital.**

3     A.     For all systems in this docket, the amounts recorded as Chemical Expenses do not  
4     constitute a direct cash expense.  Instead, Chemical Expenses, as recorded by the  
5     Company, represent issuances from the Company's materials and supplies inventory  
6     which is already included in rate base as a separate component of the collective Working  
7     Capital calculation.  Hence, the inclusion of amounts recorded as Chemical Expenses in  
8     the computation of the cash working capital component of the collective Working Capital  
9     computation would result in the double counting of this item in rate base.

10

11    **Q.     Please explain the reasons to remove Bad Debt Expense from the Customer**  
12    **Accounting Expense in the cash working capital computation.**

13    A.     Bad Debt expense does not represent a cash outlay like that experienced with other cash  
14    expenses; rather, Bad Debt expense represents amounts not collected.  The provision for  
15    bad debt expense is included in rates and is collected on a timely basis from the paying  
16    customers.  For these reasons, Staff recommends that Bad Debt Expense not be considered  
17    in the computation of cash working capital.

18

19    **Q.     Did Staff prepare a schedule to present its lead-lag analysis?**

20    A.     Yes.  Schedule GTM-6 presents Staff's computation of cash working capital for the Sun  
21    City West Wastewater district and provides a comparison of the Staff recommended total  
22    with the Company's proposal.

1 **Q. What does Staff recommend?**

2 A. Staff recommends cash working capital of \$187,766, a \$41,699 reduction from the  
3 Company's proposed \$229,465 amount, as shown for the Sun City West Wastewater  
4 district in Schedules GTM-4 and GTM-6.

5  
6 ***Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes***

7 **Q. What did the Company include in accumulated deferred income taxes?**

8 A. The Company proposes to allocate the total accumulated deferred income taxes for  
9 AAWC to each of its systems based on its four-factor allocation.

10  
11 **Q. How did Staff evaluate these items?**

12 A. Staff reviewed the calculation of accumulated deferred income taxes by attempting to  
13 reconcile the total amount subject to allocation to the amount reflected in the audited  
14 financial statements of the AWW.

15  
16 **Q. Was Staff able to reconcile the two amounts?**

17 A. No. Staff noted that the total used by the Company to calculate its allocations is  
18 approximately \$13.026 million, while the accumulated deferred income tax receivable in  
19 the Company's audited financials is \$12.689 million, a difference of approximately  
20 \$336,000.

21  
22 **Q. What does Staff recommend?**

23 A. Staff recommends using the accumulated deferred tax balance in the Company's audited  
24 financial statements as the basis for allocation to the districts. Staff's calculation of the  
25 recommended amount is shown in Schedule GTM-7. Staff recommends a \$1,211,058

1 accumulated deferred income tax debit (addition to rate base), a \$32,077 reduction from  
2 the Company's proposed amount of \$1,243,135.

3  
4 ***Rate Base Adjustment No. 4 – Comprehensive Planning Study Cost***

5 **Q. Did the Company record the Comprehensive Planning Study in the correct division?**

6 A. No. A discussion above explains that the Company errantly recorded the comprehensive  
7 planning study costs in the Sun City division instead of the Sun City West Division.

8  
9 **Q. What is Staff recommending?**

10 A. Staff recommends an increase of \$12,242 to Sun City West account no. 360000 to reflect  
11 this transfer.

12  
13 ***Rate Base Adjustment No. 5 – Accumulated Depreciation***

14 **Q. What did the Company include in accumulated depreciation?**

15 A. The Company proposes \$19,183,739 in accumulated depreciation.

16  
17 **Q. Does Staff agree with the Company's proposal?**

18 A. No. In rate base adjustment number one, Staff recommends transferring \$1,039,823 in  
19 plant from Anthem/Agua Fria to Sun City West. The accumulated depreciation associated  
20 with these assets should also be transferred.

21  
22 **Q. What does Staff recommend?**

23 A. Staff recommends transferring \$630,244 in accumulated depreciation from the  
24 Anthem/Agua Fria district to the Sun City West district, as shown in Schedule GTM-9.

25

**XI. OPERATING INCOME SUMMARY – SUN CITY WEST WASTEWATER**

***Operating Income Adjustment No. 1 – NWVRTF Operating Expense***

**Q. What is the Company proposing for NWVRTF operating expenses?**

A. The Company proposes an amount that represents 68 percent of the NWVRTF expenses that the Sun City West Wastewater district shares with the Anthem/Agua Fria Wastewater district.

**Q. What is the basis for the Company's 68 percent allocation factor?**

A. As discussed above in Staff rate base adjustment no. 1, the 68 percent allocation for Sun City West Wastewater is the percentage adopted in the prior rate case based on the anticipated relative capacity demand between the Agua Fria and the Sun City West districts. Staff has updated the expected relative capacity demands to 28 percent for Anthem/Agua Fria and 72 percent for Sun City West.

**Q. Is relative capacity demand the preferred method for allocating all NWVRTF expenses?**

A. No. Staff concludes that capacity demand is the appropriate basis for allocating fixed costs; however, variable costs are more appropriately allocated based on the relative test year treatment flows for the two districts. For purposes of this allocation, Staff recognized purchase power and chemical expense as variable expenses. Staff's variable allocation factors are 14 percent for the Anthem/Agua Fria district and 86 percent for Sun City West district.

**Q. What does Staff recommend?**

A. Staff recommends transferring \$233,354 of the proposed NWVRTF operating expenses from the Anthem/Agua Fria WW district and to Sun City West district.

***Operating Income Adjustment No. 2 –Power Expense***

**Q. What is the Company proposing for Fuel and Power Expense?**

A. The Company proposes \$385,512 (including NWVRTF) for Fuel and Power Expense. The amount proposed reflects an APS interim rate increase but not the permanent increase ultimately approved by the Commission.

**Q. Did the Company's provide Staff with an updated calculation that reflects APS' permanent rate increase?**

A. Yes. The Company provided updated schedules to reflect the increase ultimately approved in the recent APS permanent rate case. The updated spreadsheet indicates that the Fuel and Power Expense is expected to increase by an additional \$29,239.

**Q. Does Staff agree with the \$29,239 additional power annualization to reflect the APS rate increase?**

A. Staff agrees that the annualization results in a \$29,239 increase in power cost. Staff has recognized this additional cost in its analysis. In addition, a portion of the power annualization adjustment related to the NWVRTF is transferred to the Sun City West wastewater district as a result of Staff's updated allocation. The net increase to the Anthem/Agua Fria district is \$147,515, as shown in schedule GTM-13.

**Q. What is Staff's recommendation for Fuel and Power Expense?**

A. Staff recommends a \$147,515 increase to Fuel and Power Expense to reflect the authorized permanent increase in APS' rates, as shown in Schedule GTM-13.

***Operating Income Adjustment No. 3 – Customer Accounting (Bad Debt) Expense***

**Q. What is the Company proposing for Customer Accounting Expense?**

A. AAWC is proposing the test year recorded amount and pro forma amounts to reflect customer annualization and increased postage expense for a total of \$123,968. This amount includes \$57,211 for Bad Debt Expense.

**Q. Is the Company's proposed amount for bad debt expense consistent with its recent experience?**

A. No. The Company provided Staff a spreadsheet detailing its three-year experience for Bad Debt Expense. In this schedule, the Company indicates that Bad Debt Expense is 0.03 percent of revenues. Applying the three-year average rate to Staff's adjusted test year revenues provides a normalized Bad Debt Expense of \$1,602, or \$55,609 less than proposed by the Company.

**Q. What is Staff recommending for Customer Accounting Expense?**

A. Staff is proposing a decrease to Customer Accounting Expense by \$55,609 from \$123,968 to \$68,359 to remove the excess Bad Debt Expense, as shown in Schedules GTM-11 and GTM-14. Staff further recommends adoption of its GRCF that includes a factor for Uncollectible expense, as shown in Schedule GTM-2.

***Operating Income Adjustment No. 4 – Water Testing Expense***

**Q. What is the Company proposing for Water Testing Expense, a component of Miscellaneous Expense?**

A. AAWC is proposing water testing expense of \$0 which is typically included the Miscellaneous Expenses that total \$138,620 in the test year.

1     **Q.     Does Staff agree with the Company's proposed amount?**

2     A.     No. Staff has recalculated the Water Testing Expense to be \$13,196, or \$13,196 higher  
3             than the Company's proposed amount.

4  
5     **Q.     What is Staff recommendation for Miscellaneous Expense?**

6     A.     Staff recommends a \$13,196 increase to Miscellaneous Expense, as shown in Schedule  
7             GTM-11 and Schedule GTM-15.

8  
9     *Operating Income Adjustment No. 5 – Depreciation Expense*

10    **Q.     What is the Company proposing for Depreciation expense?**

11    A.     The Company is proposing depreciation expense of \$1,238,799.

12  
13    **Q.     What are the components of the Company's proposed depreciation expense?**

14    A.     AAWC proposes depreciation expense consisting of test year depreciation expense plus  
15             pro forma adjustments to recognize depreciation on post test year plant additions less the  
16             amortization of CIAC.

17  
18    **Q.     How did AAWC calculate each component of its proposed depreciation expense?**

19    A.     The Company calculated test year depreciation expense by multiplying the original cost of  
20             its depreciable test year plant in service by the depreciation rates approved in the prior rate  
21             proceeding.

22  
23    **Q.     Did Staff recompute the Company's depreciation expense?**

24    A.     Yes. Staff recomputed depreciation expense based on Staff's recommended plant by  
25             account and the depreciation rates proposed in this proceeding. Staff uses the same  
26             methodology as the Company to calculate depreciation expense. Staff's calculation

1 differs from the Company's due primarily to the use of Staff's recommended depreciation  
2 rates in this proceeding and Staff's different allocation of the NWVRTF. Staff and the  
3 Company reduced depreciation expense for the amortization of CIAC in accordance with  
4 the NARUC USOA.

5  
6 **Q. What is Staff recommending?**

7 A. Staff recommends \$1,350,100 for Depreciation expense, an \$111,301 increase from the  
8 Company's proposed amount, as shown in Schedule GTM-16.

9  
10 ***Operating Income Adjustment No. 6 – Property Tax Expense***

11 **Q. What is the Company proposing for Test Year Property Tax Expense?**

12 A. AAWC is proposing \$135,172 for test year property tax expense.

13  
14 **Q. How did the Company calculate property tax expense?**

15 A. The Company's proposed property tax expense is calculated on a modified ADOR  
16 methodology typically adopted by the Commission for water and wastewater utilities. The  
17 results from using this methodology are primarily dependent upon the test year and  
18 proposed revenues. In other words, for each revenue requirement, there is a specific  
19 property tax expense in the same manner as each operating income has a specific income  
20 tax expense. Although the results for this methodology are frequently referred to as test  
21 year amount, in fact, the results are representative of the average expected property tax  
22 over a subsequent three-year period based partially on authorized revenues. The  
23 Company's calculation of proposed property taxes is static, thus only representative of a  
24 specific proposed revenue level. Therefore, if the Commission adopts any revenue  
25 requirement other than that proposed by the Company, the Company's proposed property  
26 would not correspond with the adopted revenues.

1 **Q. Has Staff developed a solution to address the dependent relationship between**  
2 **Property Tax expense and revenues?**

3 A. Yes. Staff has included a factor for property taxes in the GRCF (see Schedule GTM-2)  
4 that automatically adjusts the revenue requirement for changes in revenue in the same way  
5 that income taxes are adjusted for changes in operating income. This flexible method will  
6 accurately reflect Property Tax expense at any authorized revenue level. This refinement  
7 removes the need to include proposed revenues in the calculation of test year Property Tax  
8 expense and allows for accurate calculation of Property Tax expense at the test year  
9 revenue level.

10  
11 **Q. What is Staff recommending for test year Property Tax expense?**

12 A. Staff recommends \$135,261 for test year property tax expense, an \$89 increase from the  
13 Company's proposed amount, as shown in Schedule GTM-17.<sup>5</sup> Staff further recommends  
14 adoption of its GRCF that includes a factor for Property Tax expense, as shown in  
15 Schedule GTM-2.

16  
17 ***Operating Income Adjustment No. 7 – Income Tax Expense***

18 **Q. What is the Company proposing for Test Year Income Tax Expense?**

19 A. AAWC is proposing negative \$52,682 for Test Year Income Tax Expense.  
20

21 **Q. How did Staff calculate Test Year Income Tax Expense?**

22 A. Staff calculated Test Year Income Tax expense by applying the statutory State and Federal  
23 income tax rates to Staff's adjusted test year taxable loss as shown in Schedule GTM-2.  
24 Since the Company files a consolidated tax return with other systems and the average and

---

<sup>5</sup> Schedule GTM-17 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1 marginal federal tax rates are 34 percent when federal taxable income is over \$335,000,  
2 Staff has assigned a 34 percent federal tax rate to the test year income.

3  
4 **Q. Did Staff make any adjustments to test year income tax expense?**

5 A. Yes. Staff's adjustments reflects application of the statutory State and Federal income tax  
6 rates to Staff's taxable income, as shown in GTM-2 and GTM-10.

7  
8 **Q. What is Staff recommending?**

9 A. Staff recommends a negative \$121,353 Test Year Income Tax expense representing an  
10 increase of \$174,035, as shown in Schedule GTM-2 and GTM-18.

11  
12 ***Operating Income Adjustment No. 8 – Rate Case Expense***

13 **Q. What did the Company include in rate case expense?**

14 A. In its calculation of rate case expense, the Company included \$9,406 for its "Expected  
15 Unamortized Balance as of 9/2010" of \$28,218 to be recovered over three years, along  
16 with the estimated rate case expense of the instant proceeding.

17  
18 **Q. Please explain Staff's position.**

19 A. Consistent with past recommendations adopted by the Commission, Staff recommends  
20 exclusion of unrecovered rate case expense from prior proceedings. Staff's  
21 recommendation reflects "normalization" as opposed to "amortization" of rate case  
22 expense.

23  
24 **Q. Please explain the technical distinction between normalization and amortization.**

25 A. Normalization represents the anticipated average annual expense and the amount included  
26 in test year expenses. The normalized level of expense is then updated in subsequent

1 proceedings and included as test year expense in the future proceeding with no  
2 consideration of unrecovered amounts associated with activity in the prior case. In  
3 contrast, amortization relates to the systematic recovery of an asset, or in the case of  
4 CIAC, amortization is the systematic disposition of the cost free funds or property  
5 received. In accounting terms, assets and CIAC are balance sheet, or permanent, accounts  
6 with balances that carry over from prior years; therefore, unamortized asset and CIAC  
7 balances are eligible for consideration in future rates. In contrast, normalized expenses are  
8 operating income, or temporary, accounts which are closed out each year and not eligible  
9 for consideration in future rates.

10  
11 **Q. What does Staff recommend?**

12 A. As shown in Schedule GTM-19, Staff recommends a decrease of \$9,406 to Rate Case  
13 Expense for the amount that the Company proposes to include from prior proceedings.

14  
15 **Q. Does this conclude your direct testimony?**

16 A. Yes, it does.

**ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER**

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

**DIRECT TESTIMONY OF GARY T. MCMURRY**

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ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 47,735,732	\$ 47,735,732	\$ 44,359,326	\$ 44,359,326
2	Adjusted Operating Income (Loss)	\$ (191,785)	\$ (191,785)	\$ 169,900	\$ 169,900
3	Current Rate of Return (L2 / L1)	-0.40%	-0.40%	0.38%	0.38%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 4,071,858	\$ 4,071,858	\$ 3,193,871	\$ 3,193,871
6	Operating Income Deficiency (L5 - L2)	\$ 4,263,643	\$ 4,263,643	\$ 3,023,971	\$ 3,023,971
7	Gross Revenue Conversion Factor	1.6561	1.6561	1.6561	1.6561
8	Required Revenue Increase (L7 * L6)	\$ 7,060,837	\$ 7,060,837	<b>\$ 5,008,106</b>	<b>\$ 5,008,106</b>
9	Adjusted Test Year Revenue	\$ 8,637,123	\$ 8,637,123	\$ 8,637,123	\$ 8,637,123
10	Proposed Annual Revenue (L8 + L9)	\$ 15,697,960	\$ 15,697,960	\$ 13,645,229	\$ 13,645,229
11	Required Increase in Revenue (%)	81.75%	81.75%	57.98%	57.98%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column (A): Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
----------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.3131%
3	Revenues (L1 - L2)	99.6869%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3053%
5	Subtotal (L3 - L4)	60.3815%
6	Revenue Conversion Factor (L1 / L5)	1.656135

Calculation of Uncollectible Factor:

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.5100%
11	Uncollectible Factor (L9 * L10)	0.3131%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor:

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-16, L24)	1.1505%
22	Effective Property Tax Factor (L20 * L21)	0.7064%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	39.3053%

24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 3,193,871
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$ 169,900
26	Required Increase in Operating Income (L24 - L25)	\$ 3,023,971
27	Income Taxes on Recommended Revenue (Col. (D), L45)	\$ 1,171,205
28	Income Taxes on Test Year Revenue (Col. (A), L45)	\$ (729,769)
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 1,900,974
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$ 5,008,106
31	Uncollectible Rate (Line 10)	0.5100%
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)	\$ 25,541
33	Property Tax with Recommended Revenue (GTM-17, Col B, L20)	\$ 355,968
34	Property Tax on Test Year Revenue (GTM-17, Col A, L17)	\$ 298,349
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)	\$ 57,620
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)	\$ 5,008,106

(A)

Test Year	
	Anthem
	Agua Fria
\$	8,637,123
\$	9,196,992
\$	1,330,780
\$	(1,890,649)
	6.9680%
\$	(131,740)
\$	(1,758,909)
\$	(598,029)
\$	(729,769)

(D)

Staff Recommended	
Anthem Agua Fria	
\$	13,645,229
\$	9,280,153
\$	1,330,780
\$	3,034,297
	6.9680%
\$	211,430
\$	2,822,867
\$	959,775
\$	1,171,205

Calculation of Income Tax:

37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L10)	\$ 8,637,123
38	Operating Expenses Excluding Income Taxes	\$ 9,196,992
39	Synchronized Interest (L54)	\$ 1,330,780
40	Arizona Taxable Income (L37 - L38 - L39)	\$ (1,890,649)
41	Arizona State Income Tax Rate	6.9680%
42	Arizona Income Tax (L40 x L41)	\$ (131,740)
43	Federal Taxable Income (L40 - L42)	\$ (1,758,909)
44	Total Federal Income Tax	\$ (598,029)
45	Combined Federal and State Income Tax (L42 + L44)	\$ (729,769)

46 Effective Tax Rate

34.0000%

Calculation of Interest Synchronization:

47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	\$ 44,359,326
48	Weighted Average Cost of Debt	3.0000%
49	Synchronized Interest (L47 X L48)	\$ 1,330,780

Anthem AF
\$ 44,359,326
3.0000%
\$ 1,330,780

## ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER

Docket No. WS-01303A-09-0343

Schedule GTM-3

Test Year Ended December 31, 2008

## RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 131,361,186	\$ 128,482,726
2	Less: Accumulated Depreciation	22,837,366	22,207,122
3	Net Plant in Service	<u>\$ 108,523,820</u>	<u>\$ 106,275,604</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 14,883,541	\$ 15,872,441
5	Less: Accumulated Amortization	1,054,390	1,054,390
6	Net CIAC	<u>13,829,151</u>	<u>14,818,051</u>
7	Advances in Aid of Construction (AIAC)	48,273,364	48,273,364
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	143,475	143,475
10	Accumulated Deferred Income Tax Credits	-	-
	Customer Meter Deposits	-	-
<u>ADD:</u>			
11	Cash Working Capital	285,666	173,460
12	Accumulated Deferred Income Tax Debits	1,049,621	1,022,537
13	Supplies Inventory	2,495	2,495
14	Prepayments	44,740	44,740
15	Deferred Debits	75,382	75,382
16	Purchase Wastewater Treatment Charges	-	-
	Rounding	(2)	(2)
17	Original Cost Rate Base	<u>\$ 47,735,732</u>	<u>\$ 44,359,326</u>

References:

Column (A), Company Schedule B-2

Column (B): Schedule GTM-4

Column (C): Column (A) + Column (B)

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] NWVRTF ADJ #1	[C] Verrado ADJ #2	[D] Cash Working ADJ #3	[E] Deferred Inc. Taxes ADJ #4	[F] CIAC in CWIP ADJ #5	[G] Accum Depr ADJ #6	[H] Generator Trnsfr ADJ #7	[I] STAFF ADJUSTED
		<b>PLANT IN SERVICE:</b>									
1	304100	Struct & Imp SS	11,728							\$	11,728
2	304200	Struct & Imp P	-								-
3	304510	Struct & Imp AG Capital Lease	-								-
4	304600	Struct & Imp Offices	-								-
5	304620	Struct & Imp Leasehold	-								-
6	304800	Struct & Imp Misc	-								-
7	307000	Wells & Springs	-								-
8	340100	Office Furniture & Equip	-								-
9	304200	Computer & Periph Equip	25,424								25,424
10	340300	Computer Software	-								-
11	340330	Comp Software Other	-								-
12	340500	Other Office Equip	-								-
13	341100	Trans Equip Lt Duty Trucks	-								-
14	341200	Trans Equip Hvy Duty Trucks	60,471								60,471
15	341400	Trans Equip Other	8,352								8,352
16	343000	Tools, Shop, Garage Equip	29,267								29,267
17	344000	Laboratory Equipment	-								-
18	346100	Comm Equip Non-Telephone	-								-
19	346200	Comm Equip Telephone	-								-
20	346300	Comm Equip Other	-								-
21	346700	Misc Equipment	-								-
22	351000	WWWOrganization	-								-
23	352000	WW Franchises	495,058								495,058
24	353200	WW Land & Ld Rights Coll	353,370								353,370
25	353500	WW Land & Ld Rights Gen	143,036								143,036
26	354200	WW Struct & Imp Coll	2,047,885								2,047,885
27	354400	WW Struct & Imp TDP	6,507,035		(547,937)						5,959,098
28	354500	WW Struct & Imp Gen	10,522,274						(487,000)		10,035,274
29	355500	WW Pwr Gen Equip RWTP	136,851							487,000	623,851
30	360000	WW Collection Sewers Forced	2,729,254								2,729,254
31	361100	WW Collecting Mains	48,641,273								48,641,273
32	362000	WW Special Coll Struct	181,571								181,571
33	363000	WW Service Sewer	6,195,971								6,195,971
34	364000	WW Flow Measuring Devices	490,498								490,498
35	370000	WW Receiving Wells	3,062,054								3,062,054
36	371100	WW Pump Equip Elect	2,323,742		(158,136)						2,165,606
37	371200	WW Pump Equip Other Pwr	6,216								6,216
38	380000	WW TD Equip	2,839,300		(1,132,564)						1,706,736
39	380050	WW TD Equip Grit Removal	10,086,969								10,086,969
40	380100	WW TD Equip Sed Tanks/Acc	3,865,949								3,865,949
41	380200	WW TD Equip Sludge/Eff Rmv	3,041								3,041
42	380250	WW TD Equip Sludge Dig Tank	2,572,930								2,572,930
43	380300	WW TD Equip Sludge Dry Filter	11,848,060								11,848,060
44	380400	WW TD Equip Aux Effl Trmt	772,399								772,399
45	380500	WW TD Equip Chem Trmt Pht	1,113,216								1,113,216
46	380600	WW TD Equip Oth Disp	845,799								845,799
47											

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] NWVRTF ADJ #1	[C] Verrado ADJ #2	[D] Cash Working ADJ #3	[E] Deferred Inc. Taxes ADJ #4	[E] CIAC in CWIP ADJ #5	[F] Accum Depr ADJ #6	[G] Generator Trnsfr ADJ #7	[H] STAFF ADJUSTED
87		Allocation of 32 % of NWVTP (LJG-3)									
88	352000	WW Franchises	417	(52)							365
89	353200	WW Land & Ld Rights Coll	144,900	(18,113)							126,788
90	353500	WW Land & Ld Rights Gen	8,639	(830)							5,809
91	354200	WW Struct & Imp Coll	880,759	(110,095)							770,664
92	354300	WW Struct & Imp SPP	309,844	(38,731)							271,114
93	354400	WW Struct & Imp TDP	-	-							-
94	354500	WW Struct & Imp Gen	511,449	(63,931)							447,518
95	355200	WW Pwr Gen Equip Coll	2,345	(318)							2,227
96	355300	WW Pwr Gen Equip SPP	-	-							-
97	360000	WW Collection Sewers Forced	-	-							-
98	361100	WW Collecting Mains	35,134	(4,382)							30,742
99	362000	WW Special Coll Struct	165,708	(20,714)							144,995
100	363000	WW Services Sewer	8,285	(1,036)							7,249
101	364000	WW Flow Measuring Devices	1,760	(220)							1,540
102	370000	WW Receiving Wells	-	-							-
103	371100	WW Pump Equip Elect	129,472	(16,184)							113,288
104	371200	WW Pump Equip Other Pwr	118	(15)							103
105	380000	WW TD Equipment	673,966	(84,246)							589,720
106	380050	WW TD Equip Gril Removal	352,780	(44,097)							308,683
107	380100	WW TD Equip Sed Tanks/Acc	1,717,913	(214,739)							1,503,174
108	380200	WW TD Equip Sldge/eff Rmv	16,730	(2,091)							14,639
109	380250	WW TD Equip SldgeDig Trk	22,897	(2,862)							20,035
110	380300	WW TD Equip Sldge Dry/Fil	1,929,814	(241,227)							1,688,587
111	380350	WW TD Equip Sec Trmt Fil	8,181	(1,023)							7,158
112	380400	WW TD Equip Aux Effl Trmt	410,850	(51,356)							359,494
113	380500	WW TD Equip Chem Trmt Plant	649	(81)							568
114	380600	WW TD Equip Other Disp	332,677	(41,589)							291,092
115	380625	WW TD Equip Gen Trmt	253,425	(31,678)							221,747
116	380650	WW TD Equip Influent Lift S	23,045	(2,881)							20,164
117	381000	WW Plant Sewers	5,251	(656)							4,595
118	382000	WW Outfall Sewer Lines	37,568	(4,696)							32,872
119	389100	WW Oth Plnt & Misc Equip Int	8,197	(775)							5,422
120	389600	WW Oth Plnt & Misc Equip	-	-							-
121	390000	WW Office Furniture & Equip	53,781	(6,723)							47,058
122	390200	WW Computers & Peripheral	6,449	(806)							5,643
123	390300	WW Computer Software	20,152	(2,519)							17,633
124	391000	WW Trans Equipment	76,641	(9,580)							67,061
125	392000	WW Stores Equipment	3,606	(451)							3,155
126	393000	WW Tool Shop & Garage Equip	39,753	(4,969)							34,784
127	394000	WW Laboratory Equip	31,584	(3,948)							27,636
128	395000	WW Power Operated Equip	4,145	(518)							3,627
129	396000	WW Communication Equip	71,104	(8,888)							62,216
130	397000	WW Misc Equipment	22,396	(2,800)							19,597
131											
132		Post Test Year Plant Additions									
133		Additional Costs as of 5/15/2009									
134	354400	WW Struct & Impt TDP	18,626								18,626
135	370000	WW Receiving Wells	548,541								548,541
136	371100	WW Pump Equip Elect	15								15
137	380000	WW TD Equipment	150								150
138	380350	WW TD Equip Sec Trmt Filter	38,691								38,691
139											
140		Rounding	(2)								(2)
141											
142		Total Plant in Service	131,361,185	(1,039,823)	(1,838,637)	-	-	-	-	-	128,482,725
143											
144		Accumulated Depreciation	22,837,366					-	(630,244)	-	22,207,122
145		Net Plant in Service (L58 - L 59)	\$ 108,523,819	\$ (1,039,823)	\$ (1,838,637)	\$ -	\$ -	\$ -	\$ 630,244	\$ -	\$ 106,275,603
146											
147		LESS:									
148		Contributions in Aid of Construction (CIAC)	\$ 14,883,541		\$ -	\$ -	\$ -	\$ 988,900	\$ -	\$ -	\$ 15,872,441
149		Less: Accumulated Amortization	1,054,390	-	-	-	-	-	-	-	1,054,390
150		Net CIAC (L63 - L64)	13,829,151	-	-	-	-	988,900	-	-	14,818,051
151		Advances in Aid of Construction (AIAC)	48,273,364	-	-	-	-	-	-	-	48,273,364
152		Imputed Reg Advances	-	-	-	-	-	-	-	-	-
153		Imputed Reg CIAC	143,475	-	-	-	-	-	-	-	143,475
154		Accumulated Deferred Income Tax Credits	-	-	-	-	-	-	-	-	-
155		Customer Meter Deposits	-	-	-	-	-	-	-	-	-
156		ADD:									
157		Working Capital Allowance	285,666	-	-	(112,206)	-	-	-	-	173,460
158		Accumulated Deferred Income Tax Debits	1,049,821	-	-	-	(27,084)	-	-	-	1,022,537
159		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-	-	-
160		Material and Supplies Inventory	2,495	-	-	-	-	-	-	-	2,495
161		Prepayments	44,740	-	-	-	-	-	-	-	44,740
162		Projected Capital Expenditures	-	-	-	-	-	-	-	-	-
163		Deferred Debits	75,382	-	-	-	-	-	-	-	75,382
164		Rounding	(1)								(1)
165		Original Cost Rate Base	\$ 47,735,732	\$ (1,039,823)	\$ (1,838,637)	\$ (112,206)	\$ (27,084)	\$ (988,900)	\$ 630,244	\$ -	\$ 44,359,326

RATE BASE ADJUSTMENT # 1 - NW VALLEY REGIONAL TREATMENT FACILITY

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	352000	WW Franchises	417	(52)	365
2	353200	WW Land & Ld Rights Coll	144,900	(18,113)	126,788
3	353500	WW Land & Ld Rights Gen	6,639	(830)	5,809
4	354200	WW Struct & Imp Coll	880,759	(110,095)	770,664
5	354300	WW Struct & Imp SPP	309,844	(38,731)	271,114
6	355400	WW Struct & Imp TDP	-	-	-
7	354500	WW Struct & Imp Gen	511,449	(63,931)	447,518
8	355200	WW Pwr Gen Equip Coll	2,545	(318)	2,227
9	355300	WW Pwr Gen Equip SPP	-	-	-
10	380000	WW Collection Sewers Forced	-	-	-
11	361100	WW Collecting Mains	35,134	(4,392)	30,742
12	362000	WW Special Coll Struct	165,708	(20,714)	144,995
13	363000	WW Services Sewer	8,285	(1,036)	7,249
14	364000	WW Flow Measuring Devices	1,760	(220)	1,540
15	370000	WW Receiving Wells	-	-	-
16	371100	WW Pump Equip Elect	129,472	(16,184)	113,288
17	371200	WW Pump Equip Other Pwr	118	(15)	103
18	380000	WW TD Equipment	673,966	(84,246)	589,720
19	380050	WW TD Equip Grit Removal	352,780	(44,097)	308,683
20	380100	WW TD Equip Sed Tanks/Acc	1,717,913	(214,739)	1,503,174
21	380200	WW TD Equip Sludge/Eff Rmv	16,730	(2,091)	14,639
22	380250	WW TD Equip Sludge Dig Trnk	22,897	(2,862)	20,035
23	380300	WW TD Equip Sludge Dry/Fit	1,929,814	(241,227)	1,688,587
24	380350	WW TD Equip Sec Trmt Filt	8,181	(1,023)	7,158
25	380400	WW TD Equip Aux Eff Trmt	410,850	(51,356)	359,494
26	380500	WW TD Equip Chem Trmt Plnt	649	(81)	568
27	380600	WW TD Equip Other Disp	332,677	(41,585)	291,092
28	380625	WW TD Equip Gen Trmt	253,425	(31,678)	221,747
29	380650	WW TD Equip Influent Lift S	23,045	(2,881)	20,164
30	381000	WW Plant Sewers	5,251	(656)	4,595
31	382000	WW Outfall Sewer Lines	37,568	(4,696)	32,872
32	389100	WW Oth Plnt & Misc Equip Int	6,197	(775)	5,422
33	389600	WW Oth Plnt & Misc Equip	-	-	-
34	390000	WW Office Furniture & Equip	53,781	(6,723)	47,058
35	390200	WW Computers & Peripheral	6,449	(806)	5,643
36	390300	WW Computer Software	20,152	(2,519)	17,633
37	391000	WW Trans Equipment	76,641	(9,580)	67,061
38	392000	WW Stores Equipment	3,606	(451)	3,155
39	393000	WW Tool Shop & Garage Equip	39,753	(4,969)	34,784
40	394000	WW Laboratory Equip	31,584	(3,948)	27,636
41	395000	WW Power Operated Equip	4,145	(518)	3,627
42	396000	WW Communication Equip	71,104	(8,888)	62,216
43	397000	WW Misc Equipment	22,396	(2,800)	19,597
44			<u>8,318,584</u>	<u>(1,039,823)</u>	<u>7,278,761</u>
45					
46					
47	<u>Cost Allocation Percentage</u>		Prior	Current	
48	Sun City West		68%	72%	
49	Anthem Agua Fria		32%	28%	

References:

Column (A): Amounts included in plant balances per filing.

Column (B): Per Testimony GTM

Column (C): Column (A) less Column (B)

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RATE BASE ADJUSTMENT # 2 - VERRADO WWTF ADJUSTMENT

			[A]	[B]	[C]
LINE		Acct	Company Proposed	AMOUNT	STAFF
NO.	DESCRIPTION	No.	AMOUNT	EXCLUDED	RECOMMENDED
1	WW Struct & Imp TDP	354400	\$ 5,374,047	\$ (547,937)	\$ 4,826,110
2	WW Pump Equip Elect	371100	\$ 409,283	(158,136)	251,147
3	WW TD Equip	380000	\$ 1,964,399	(1,132,564)	831,745
4	WW TD Equip Grit Remov	380050	\$ 527,158	-	527,158
5	WW Equip Sed /Tanks Acc	380100	\$ 1,797,750	-	1,797,750
6	WW TD Equip Slidge Dig Tnk	380250	\$ 532,857	-	532,857
7	WW TD Equip Sec Trmt Fil	380350	\$ 581,647	-	581,647
8	WW TD Equip Aux Effl Trmt	380400	\$ 649,801	-	649,801
9	WW TD Equip Chem Trmt Plt	380500	\$ 48,465	-	48,465
10	WW Communication Equip	396000	\$ 410,498	-	410,498
11	WW Receiving Wells	370000	\$ 351,452	-	351,452
12	Verrado Grand Total Phase II		\$ 12,647,357	\$ (1,838,637)	10,808,630

REFERENCES:

Columns [A]: Company Schedules

Column [B]: GTM Testimony

Column [C]: Column A - Column B

RATE BASE ADJUSTMENT # 3 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG DAYS	[E] DOLLAR DAYS
1	Labor	\$ 1,335,278	\$ (17,587)	\$ 1,317,691	12.000	\$ 15,812,290
2	Purchased Water	3,368	(1,878)	1,490	52.523	78,282
3	Fuel & Power	278,664	(58,356)	220,308	23.460	5,168,423
4	Chemicals	303,374	(303,374)	-	14.634	-
5	Waste Disposal	199,095	-	199,095	26.899	5,355,377
6	Management Fees	1,528,005	(6,054)	1,521,951	14.772	22,481,493
7	Group Insurance	396,599	(54)	396,545	(13.704)	(5,434,173)
8	Pensions	221,640	-	221,640	(2.368)	(524,932)
9	Insurance Other Than Group	94,566	-	94,566	10.089	954,105
10	Customer Accounting	242,170	(90,726)	151,444	20.310	3,075,827
11	Rents	84,483	(883)	83,600	-	-
12	Miscellaneous	534,489	9,783	544,272	18.239	9,926,877
13	Maintenance Expense	246,204	(6,143)	240,061	18.239	4,378,430
14	Other Operating Expenses	166,636	-	166,636	30.000	4,999,080
15	Taxes					
16	General Taxes-Property Taxes	296,804	59,164	355,968	191.371	68,122,153
17	General Taxes-Other	87,538	-	87,538	13.346	1,168,300
18	Income Taxes	(1,020,813)	2,343,678	1,322,865	30.130	39,857,922
19	Interest Sync	1,432,072	(101,292)	1,330,780	106.25	141,395,352
20	Total Operating Expenses	\$ 6,430,172	\$ 1,826,278	\$ 8,256,450		\$ 316,814,805
21						
22						
23	Expense Lag	Line 20, Col. (E) / Col [C]	38.37			
24	Revenue Lag	Company Workpapers	46.04			
25	Net Lag	Line 24 - 23	7.67			
26	Staff Adjusted Expenses	Line 20, Col C	8,256,450			
27	Staff - Cash Working Capital	Line 25 * Line 26/365 day	173,460			
28	Company As Filed	Co Schedule B-5	285,666			
29	Staff Adjustment - Reduction to WC	To GTM-4	(112,206)			
30						
31	References:					
32	Column [A]: Company Schedule C-1					
33	Column [B]: Staff adjustments to expenses, See Testimony GTM					
34	Column [C]: Column [A] + Column [B]					
35	Column [D]: Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372					
36	Column [E]: Column [C] * Column [D]					

RATE BASE ADJUSTMENT # 4 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Income Taxes	\$ 13,025,093	\$ (336,093)	\$ 12,689,000
2	Allocation Factor	8.06%	8.06%	8.06%
3	Staff Adjustment	<u>1,049,622</u>	<u>(27,084)</u>	<u>1,022,538</u>

REFERENCES:

Columns [A], Line 1: Amounts used by Co as basis for allocation  
Column [A], [B] & [C], Line 2: Allocation rate to this system  
Column [C], Line 1: Allocable amount per audited financial statements times allocation rate  
Column [A], [B] & [C], Line 3: Recalculated amounts

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RATE BASE ADJUSTMENT # 5 - CIAC ASSOCIATED WITH CWIP

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Contributions in Aid of Construction (CIAC)	\$ 14,883,541	\$ 988,900	\$ 15,872,441

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

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Schedule GTM-9 B

RATE BASE ADJUSTMENT # 6 - ACCUMULATED DEPRECIATION (NWVRTF)

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Accumulated Depreciation	\$ 17,795,411	0	\$ 17,795,411
2	Accum Depreciation - NWVRTF	5,041,955	(630,244)	4,411,711
3	Total Accumulated Depreciation	<u>\$ 22,837,366</u>	<u>\$ (630,244)</u>	<u>\$ 22,207,122</u>

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

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Schedule GTM-9 C

RATE BASE ADJUSTMENT # 7 - TRANSFER OF GENERATOR

LINE ACCT			[A]	[B]	[C]
NO.	NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		WW Struct & Imp TDP	\$ 6,059,098	\$ (487,000)	\$ 5,572,098
2		WW Pwr Gen Equip RWTP	\$ 136,851	\$ 487,000	\$ 623,851

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 8,634,567	\$ -	\$ 8,634,567	\$ 5,008,106	\$ 13,642,673
3	Other Revenues	2,556	-	2,556	-	2,556
4	Other	-	-	-	-	-
5	Total Operating Revenues	\$ 8,637,123	\$ -	\$ 8,637,123	\$ 5,008,106	\$ 13,645,229
6						
7	Labor	\$ 1,335,278	\$ (17,587)	1,317,691	\$ -	\$ 1,317,691
8	Purchased Water	\$ 3,368	(1,878)	1,490	-	1,490
9	Fuel & Power	\$ 278,664	(58,356)	220,308	-	220,308
10	Chemicals	\$ 303,374	(74,553)	228,821	-	228,821
11	Waste Disposal	\$ 199,095	-	199,095	-	199,095
12	Management Fees	\$ 1,528,005	(6,054)	1,521,951	-	1,521,951
13	Group Insurance	\$ 396,599	(54)	396,545	-	396,545
14	Pensions	\$ 221,640	-	221,640	-	221,640
15	Regulatory Expense	\$ 80,939	(12,500)	68,439	-	68,439
16	Insurance Other Than Group	\$ 94,566	-	94,566	-	94,566
17	Customer Accounting	\$ 242,170	(36,308)	205,862	25,541	231,403
18	Rents	\$ 84,483	(883)	83,600	-	83,600
19	General Office Expense	\$ 85,697	(393)	85,304	-	85,304
20	Miscellaneous	\$ 534,489	9,783	544,272	-	544,272
21	Maintenance Expense	\$ 246,204	(6,143)	240,061	-	240,061
22	Depreciation & Amortization	\$ 3,830,808	(449,348)	3,381,460	-	3,381,460
23	General Taxes-Property Taxes	\$ 296,804	1,545	298,349	57,620	355,968
24	General Taxes-Other	\$ 87,538	-	87,538	-	87,538
25	Income Taxes	\$ (1,020,813)	291,044	(729,769)	1,900,974	1,171,205
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	Total Operating Expenses	8,828,908	(361,685)	8,467,223	1,984,135	10,451,358
42	Operating Income (Loss)	\$ (191,785)	\$ 361,685	\$ 169,900	\$ 3,023,971	\$ 3,193,871

References:

Column (A): Company Schedule C-1

Column (B): Schedule GTM 11

Column (C): Column (A) + Column (B)

Column (D): Schedules GTM 2, Lines 29 and 37

Column (E): Column (C) + Column (D)

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER

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Schedule GTM-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) N/WVRTF ADJ #1	(C) Fuel & Power Exp ADJ #2	(D) Cust. Acctg ADJ #3	(E) Water Testing ADJ #4	(E) Depreciation Exp. ADJ #5	(F) Property Taxes ADJ #6	(G) Income Taxes ADJ #7	(H) Regulatory Expense	(I) STAFF ADJUSTED
1	2 Sewer Revenues	\$ 8,634,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,634,567
2	3 Other Revenues	2,556	-	-	-	-	-	-	-	-	2,556
3	4 Other	-	-	-	-	-	-	-	-	-	-
4	5 Total Operating Revenues	\$ 8,637,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,637,123
5											
6	7 Labor	\$ 1,335,278	\$ (17,587)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,317,691
7	8 Purchased Water	3,368	(1,878)	-	-	-	-	-	-	-	1,490
8	9 Fuel & Power	278,664	(58,936)	580	-	-	-	-	-	-	220,308
9	10 Chemicals	303,374	(74,553)	-	-	-	-	-	-	-	228,821
10	11 Waste Disposal	199,095	-	-	-	-	-	-	-	-	199,095
11	12 Management Fees	1,528,005	(6,054)	-	-	-	-	-	-	-	1,521,951
12	13 Group Insurance	396,599	(54)	-	-	-	-	-	-	-	396,545
13	14 Pensions	221,840	-	-	-	-	-	-	-	-	221,640
14	15 Regulatory Expense	80,939	-	-	-	-	-	-	-	(12,500)	68,439
15	16 Insurance Other Than Group	94,566	-	-	-	-	-	-	-	-	94,566
16	17 Customer Accounting	242,170	-	-	(36,308)	-	-	-	-	-	205,862
17	18 Rents	84,483	(883)	-	-	-	-	-	-	-	83,600
18	19 General Office Expense	85,897	(393)	-	-	-	-	-	-	-	85,504
19	20 Miscellaneous	534,489	(8,000)	-	-	17,783	-	-	-	-	544,272
20	21 Maintenance Expense	246,204	(6,143)	-	-	-	-	-	-	-	240,061
21	22 Depreciation & Amortization	3,830,808	-	-	-	-	(449,348)	-	-	-	3,381,460
22	23 General Taxes-Property Taxes	296,804	-	-	-	-	-	1,545	-	-	298,349
23	24 General Taxes-Other	87,538	-	-	-	-	-	-	-	-	87,538
24	25 Income Taxes	(1,020,813)	-	-	-	-	-	-	291,044	-	(729,769)
25	26										
26	27										
27	28										
28	29										
29	30										
30	31										
31	32										
32	33										
33	34										
34	35										
35	36										
36	37										
37	38										
38	39										
39	40										
40	41 Rounding	-	-	-	-	-	-	-	-	-	-
41	42 Total Operating Expenses	\$ 8,828,908	\$ (174,480)	\$ 580	\$ (36,308)	\$ 17,783	\$ (449,348)	\$ 1,545	\$ 291,044	\$ (12,500)	\$ 8,467,223
42	43 Operating Income (Loss)	\$ (191,785)	\$ 174,480	\$ (580)	\$ 36,308	\$ (17,783)	\$ 449,348	\$ (1,545)	\$ (291,044)	\$ 12,500	\$ 189,900

OPERATING INCOME ADJUSTMENT # 1 - NWVRTF OPERATING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]
1	NWVRTF allocated operating expenses	\$ 579,897	\$ (174,480)	\$ 405,418	
		Total costs NWVRTF	Co. Proposed 32%	Staff Recommended 28%	Difference
2	Labor	\$ 439,680	\$ 140,698	\$ 123,110	\$ (17,587)
3	Purchased Water	46,939	15,020	13,143	(1,878)
4	Fuel & Power (a)	373,211	119,428	60,492 (c)	(58,936)
5	Chemicals (a)	414,181	132,538	57,985	(74,553)
6	Waste Disposal	-	-	-	-
7	Management Fees	151,361	48,436	42,381	(6,054)
8	Group Insurance	1,351	432	378	(54)
9	Pensions	-	-	-	-
10	Regulatory Expense	-	-	-	-
11	Insurance Other Than Group	-	-	-	-
12	Customer Accounting	-	-	-	-
13	Rents	22,082	7,066	6,183	(883)
14	General Office Expense	9,819	3,142	2,749	(393)
15	Miscellaneous	199,988	63,996	55,997	(8,000)
16	Maintenance Expense	153,567	49,141	42,999	(6,143)
17	Depreciation & Amortization	1,176,113	(b)	(b)	(b)
18	General Taxes-Property Taxes	186,526	(b)	(b)	(b)
19	General Taxes-Other	-	-	-	-
20	Income Taxes	-	-	-	-
21					
22					
23	Total O & M Expenses	\$ 3,174,818	\$ 579,897	\$ 405,418	\$ (174,480)
24		32%			
25	Anthem's 68% of the NWVRTF costs	\$ 1,015,942			
26	(a) Variable cost allocation: Anthem Aqua Fria (14%) and Sun City West (86%)				
27	(b) Depreciation and Property Taxes Separately Reviewed				
28	(c) Staff recommended for NWVRTF based on revised APS annualization: (\$432,085 * 14%)				
29		Current	Future		
30	Cost Allocation	Capacity	Growth		
31	Anthem Agua Fria	14%	28%		
32	Sun City West	86%	72%		

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 2 - FUEL & POWER EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Fuel & Power - All Other	\$ 159,236	\$ 580	\$ 159,816
2	Total Company Proposed Fuel and Power	\$ 278,664		
3	Less: Company Proposed Fuel and Power - NWWRTF	\$ 119,428		
4	Company Proposed Fuel and Power - All Other			\$ 159,236
5				
6	Total Staff Recommended		\$ 220,308	
7	Total Staff NWWRTF	\$ 432,085		
8	Staff NWWRTF Allocation Factor	14%		
9	Less: Staff Recommended for NWWRTF		\$ 60,492	
10	Staff Recommended for All Other			\$ 159,816
11	Staff Adjustment - Fuel and Power - All Other			\$ 580

References:

Column (A), Company Schedule C-1, C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 3 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Total Uncollectible Accounts	\$ 1,152,299		
2	Uncollectible Accounts- Miscellaneous Invoices	\$ (361,154)		
3	Net Used in Company calculation	\$ 791,145		
4	Allocation Percentage-	10.11%		
5	Bad Debts included in Customer Accounting	\$ 79,959		
6				
7	Staff Adjusted Test Year Revenue			\$ 8,637,123
8	3 year average Bad Debt Exp. Rate, Per Co.			0.51%
9	Staff Recommended Bad Debt Exp			\$ 43,651
10				
11	Adjustment		\$ (36,308)	

References:

Column [A], Company Workpapers  
Column [B]: Col. [C], line 9, less Col [A], line 5  
and Testimony GTM.  
Column (C): Line 8, Per Company's Workpapers  
Column (C): Line 9 Staff's recommended Bad  
Debt Expense, based on 3-year average  
loss history times Staff Recommended Revenues

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-15

OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Miscellaneous	\$ 62,813	\$ 17,783	\$ 80,596

References:

Column (A), Company Schedule C-2 p. 26  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 5- DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) STAFF ADJUSTMENTS	(C) STAFF RECOMMENDED
1	Depreciation & Amortization	\$ 3,830,808	\$ (449,348)	\$ 3,381,460

LINE NO.	ACCT. NO.	DESCRIPTION	(A) PLANT BALANCE	(B) DEPRECIATION RATE	(C) DEPRECIATION EXPENSE
2		<u>PLANT IN SERVICE:</u>	B-2 page 6		
3					
4	304100	Struct & Imp SS	11,726	0.00%	-
5	304200	Struct & Imp P	-	0.00%	-
6	304510	Struct & Imp AG Capital Lease	-	0.00%	-
7	304600	Struct & Imp Offices	-	0.00%	-
8	304620	Struct & Imp Leasehold	-	0.00%	-
9	304800	Struct & Imp Misc	-	0.00%	-
10	307000	Wells & Springs	-	0.00%	-
11	340100	Office Furniture & Equip	-	0.00%	-
12	304200	Computer & Periph Equip	25,424	10.00%	2,542
13	340300	Computer Software	-	0.00%	-
14	340330	Comp Software Other	-	0.00%	-
15	340500	Other Office Equip	-	0.00%	-
16	341100	Trans Equip Lt Duty Trucks	-	20.00%	-
17	341200	Trans Equip Hvy Duty Trucks	60,471	15.00%	9,071
18	341400	Trans Equip Other	8,352	16.67%	1,392
19	343000	Tools, Shop, Garage Equip	29,267	4.47%	1,308
20	344000	Laboratory Equipment	-	0.00%	-
21	346100	Comm Equip Non-Telephone	-	0.00%	-
22	346200	Comm Equip Telephone	-	0.00%	-
23	346300	Comm Equip Other	-	0.00%	-
24	346700	Misc Equipment	-	0.00%	-
25	351000	WWWOrganization	-	0.00%	-
26	352000	WW Franchises	495,058	0.00%	-
27	353200	WW Land & Ld Rights Coll	353,370	0.00%	-
28	353500	WW Land & Ld Rights Gen	143,036	0.00%	-
29	354200	WW Struct & Imp Coll	2,047,885	1.67%	34,200
30	354400	WW Struct & Imp TDP	5,572,098	1.67%	93,054
31	354500	WW Struct & Imp Gen	10,622,274	1.67%	177,392
32	355500	WW Pwr Gen Equip RWTP	623,851	4.42%	27,574
33	360000	WW Collection Sewers Forced	2,729,254	2.07%	56,496
34	361100	WW Collecting Mains	46,541,273	2.04%	951,482
35	362000	WW Special Coll Struct	181,571	2.04%	3,704
36	363000	WW Service Sewer	8,195,971	2.04%	126,398
37	364000	WW Flow Measuring Devices	490,498	10.00%	49,050
38	370000	WW Receiving Wells	3,062,054	3.33%	101,966
39	371100	WW Pump Equip Elect	2,165,606	5.42%	117,376
40	371200	WW Pump Equip Other Pwr	6,216	5.42%	337
41	380000	WW TD Equip	1,706,736	5.00%	85,337
42	380050	WW TD Equip Grit Removal	10,086,969	5.00%	504,348
43	380100	WW TD Equip Sed Tanks/Acc	3,865,949	5.00%	193,297
44	380200	WW TD Equip Sludge/Eff Rmv	3,041	5.00%	152
45	380250	WW TD Equip Sludge Dig Tank	2,572,930	5.00%	128,647
46	380300	WW TD Equip Sludge Dry Filter	11,848,060	5.00%	592,403
47	380400	WW TD Equip Aux Eff Trmt	772,399	5.00%	38,620
48	380500	WW TD Equip Chem Trmt Plt	1,113,216	5.00%	55,661
49	380600	WW TD Equip Oth Disp	845,799	5.00%	42,290
50	380625	WW TD Equip Gen Trmt	143,294	5.00%	7,165
51	380650	WW TD Equip Influent Lift S	18,743	5.00%	937
	381000	WW Plant Sewers	657,626	5.00%	32,881
52	382000	WW Outfall Sewer Lines	724,631	5.00%	36,232
53	389100	WW Oth Plt & Misc Equip Int	1,024,024	4.98%	50,996
54	389600	WW Oth Plt & Misc Equip	-	0.00%	-
55	390000	WW Office Furniture & Equip	31,682	4.59%	1,454
56	391000	WW Trans Equipment	-	20.00%	-
57	392000	WW Stores Equipment	-	3.96%	-
58	393000	WW Tool Shop & Garage Equip	16,453	4.47%	735
59	394000	WW Laboratory Equipment	48,048	3.71%	1,783
60	395000	WW Power Operated Equip	1,028,920	5.02%	51,652
61	396000	WW Communication Equip	2,134,843	10.30%	219,689
62	397000	WW Misc Equipment	-	5.10%	-
63	398000	WW Other Tangible Equipment	169,085	10.30%	17,416
64					
65					
66		<u>Allocated From Corp to Districts (SLM-2)</u>	B-2 page 9		
67	303600	Land & Land Rights AG	-	0.00%	-
68	304510	Struct & Imp AG Cap Lease	-	0.00%	-
69	304600	Struct & Imp Offices	-	0.00%	-
70	304800	Struct & Imp Misc	-	0.00%	-
71	304620	Struct & Imp Leasehold	15,936	1.67%	266
72	3310001	Mains	-	-	-
73	339600	Other P/E CPS	4,162	0.00%	-
74	340100	Office Furniture & Equip	92,919	4.04%	3,754
75	340200	Comp & Periph Equip	40,360	10.00%	4,036
76	340300	Computer Software	146,548	25.00%	36,637
77	340330	Computer Software Other	3,768	25.00%	942
78	340500	Other Office Equipment	-	0.00%	-
79	341100	Trans Equip Lt Duty Trucks	-	20.00%	-
80	343000	Tool Shop & Garage Equip	-	4.47%	-

81	344000	Laboratory Equipment	-	0.00%	-
82	345000	Power Operated Equipment	-	5.20%	-
83	346100	Comm Equip Non-Telephone	14,995	10.30%	1,545
84	346200	Communication Equip Telephone	1,156	0.00%	-
85	346300	Communication Equip Other	395	0.00%	-
86	347000	Misc Equipment	-	0.00%	-
87	380400	WW TD Equip Aux Eff Tmt	-	5.00%	-
88	393000	WW Tool Shop & Garage Equip	-	4.47%	-
89					
90					
91		Allocation of 32 % of NWWTP (LJG-3)	B-2 page 12		
92	352000	WW Franchises	365	0.00%	-
93	353200	WW Land & Ld Rights Coll	126,788	0.00%	-
94	353500	WW Land & Ld Rights Gen	5,809	0.00%	-
95	354200	WW Struct & Imp Coll	770,664	1.67%	12,870
96	354300	WW Struct & Imp SPP	271,114	5.00%	13,558
97	355400	WW Struct & Imp TDP	-	5.00%	-
98	354500	WW Struct & Imp Gen	447,518	1.67%	7,474
99	355200	WW Pwr Gen Equip Coll	2,227	3.30%	73
100	355300	WW Pwr Gen Equip SPP	-	3.30%	-
101	360000	WW Collection Sewers Forced	-	2.07%	-
102	361100	WW Collecting Mains	30,742	2.04%	627
103	362000	WW Special Coll Struct	144,995	2.04%	2,958
104	363000	WW Services Sewer	7,249	2.04%	148
105	364000	WW Flow Measuring Devices	1,540	10.00%	154
106	370000	WW Receiving Wells	-	3.33%	-
107	371100	WW Pump Equip Elect	113,288	5.42%	6,140
108	371200	WW Pump Equip Other Pwr	103	5.42%	6
109	380000	WW TD Equipment	589,720	5.00%	29,486
110	380050	WW TD Equip Grit Removal	308,683	5.00%	15,434
111	380100	WW TD Equip Sed Tanks/Acc	1,503,174	5.00%	75,159
112	380200	WW TD Equip Sludge/Eff Rmv	14,639	5.00%	732
113	380250	WW TD Equip SludgeDig Trk	20,035	5.00%	1,002
114	380300	WW TD Equip Sludge Dry/Fit	1,688,587	5.00%	84,429
115	380350	WW TD Equip Sec Trmt Filtr	7,158	5.00%	358
116	380400	WW TD Equip Aux Effl Trmt	359,494	5.00%	17,975
117	380500	WW TD Equip Chem Trmt Pint	568	5.00%	28
118	380600	WW TD Equip Other Disp	291,092	5.00%	14,555
119	380625	WW TD Equip Gen Trmt	221,747	5.00%	11,087
120	380650	WW TD Equip Influent Lift S	20,164	5.00%	1,008
121	381000	WW Plant Sewers	4,595	5.00%	230
122	382000	WW Outfall Sewer Lines	32,872	5.00%	1,644
123	389100	WW Oth Pint & Misc Equip Int	5,422	4.98%	270
124	389600	WW Oth Pint & Misc Equip	-	4.98%	-
125	390000	WW Office Furniture & Equip	47,058	4.59%	2,160
126	390200	WW Computers & Peripheral	5,643	10.00%	564
127	390300	WW Computer Software	17,633	25.00%	4,408
128	391000	WW Trans Equipment	67,061	20.00%	13,412
129	392000	WW Stores Equipment	3,155	3.96%	125
130	393000	WW Tool Shop & Garage Equip	34,784	4.47%	1,555
131	394000	WW Laboratory Equip	27,636	3.71%	1,025
132	395000	WW Power Operated Equip	3,627	5.02%	182
133	396000	WW Communication Equip	62,216	10.30%	6,408
134	397000	WW Misc Equipment	19,587	5.10%	999
135					
136					
137		Post Test Year Plant Additions	B-2 page 15		
138		Additional Costs as of 5/15/2009			
139	354400	WW Struct & Impt TDP	18,626	1.67%	311
140	370000	WW Receiving Wells	548,541	3.33%	18,265
141	371100	WW Pump Equip Elect	15	5.42%	1
142	380000	WW TD Equipment	150	5.00%	8
143	380350	WW TD Equip Sec Trmt Filter	38,691	5.00%	1,935
144					
145					
146		Rounding	(2)		
147		Total Plant in Service	128,482,725	3.28%	4,211,178
148					
149					
150		Less Non Depreciable Plant			
151	352000	WW Franchises	495,058	0.00%	-
152	353200	WW Land & Ld Rights Coll	353,370	0.00%	-
153	353500	WW Land & Ld Rights Gen	143,036	0.00%	-
154	352000	WW Franchises	365	0.00%	-
155	353200	WW Land & Ld Rights Coll	126,788	0.00%	-
156	353500	WW Land & Ld Rights Gen	5,809	0.00%	-
157		Net Depreciable Plant and Depreciation Amounts	\$ 127,358,299		\$ 4,211,178
158		Composite Depreciation Rate		3.31%	
159		Less			
160		Amortization of Regulatory CIAC at Settlement Rate			304,886
161		Amortization of CIAC at Composite Rate	\$ 15,872,441		\$ 524,832
162		Staff Recommended Depreciation Expense			\$ 3,381,460
163		Company Proposed Depreciation Expense			\$ 3,830,608
164		Staff Adjustment			\$ (449,348)

OPERATING INCOME ADJUSTMENT # 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 8,637,123	\$ 8,637,123
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	17,274,246	17,274,246
4	Staff Adjusted Test Year Revenues - 2008	8,637,123	
5	Staff Recommended Revenue		13,645,229
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	25,911,369	30,919,475
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	8,637,123	10,306,492
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	17,274,246	20,612,983
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	17,287,700	20,626,437
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	3,803,294	4,537,816
16	Composite Property Tax Rate - Obtained from ADOR	7.84%	7.84%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 298,349	
18	Company Proposed Property Tax	\$ 296,804	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 1,545	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 355,968
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 298,349
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 57,620
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 57,620
24	Increase in Revenue Requirement		\$ 5,008,106
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.15053%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 24  
Line 21: Line 19 - Line 20  
Line 23: Schedule GTM-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
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Test Year Ended December 31, 2008

Schedule GTM-18

OPERATING INCOME ADJUSTMENT # 7 - INCOME TAXES

LINE ACCT			[A] COMPANY	[B] STAFF	[C] STAFF
<u>NO.</u>	<u>NO.</u>	<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>ADJUSTMENTS</u>	<u>RECOMMENDED</u>
1		Income Taxes	<u>\$(1,020,813)</u>	<u>\$ 291,044</u>	<u>\$ (729,769)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
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Test Year Ended December 31, 2008

Schedule GTM-19

OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	\$ 80,939	\$ (12,500)	\$ 68,439

References:

Column (A), Company Schedule C-2, p. 16  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

**ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER**

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

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GTM-	3	RATE BASE - ORIGINAL COST
GTM-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GTM-	5	RATE BASE ADJUSTMENT # 1 - COMPREHENSIVE PLANNING STUDY COSTS
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GTM-	8	RATE BASE ADJUSTMENT # 4 - CIAC ASSOCIATED WITH CWIP
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GTM-	12	OPERATING INCOME ADJUSTMENT # 1 - FUEL & POWER
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GTM-	14	OPERATING INCOME ADJUSTMENT # 3- DEPRECIATION EXPENSE
GTM-	15	OPERATING INCOME ADJUSTMENT # 4 - PROPERTY TAX EXPENSE
GTM-	16	OPERATING INCOME ADJUSTMENT # 5 - INCOME TAXES
GTM-	17	OPERATING INCOME ADJUSTMENT # 6 - REGULATORY EXPENSE

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 14,764,087	\$ 14,764,087	\$ 14,672,152	\$ 14,672,152
2	Adjusted Operating Income (Loss)	\$ (51,594)	\$ (51,594)	\$ 73,045	\$ 73,045
3	Current Rate of Return (L2 / L1)	-0.35%	-0.35%	0.50%	0.50%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 1,259,377	\$ 1,259,377	\$ 1,056,395	\$ 1,056,395
6	Operating Income Deficiency (L5 - L2)	\$ 1,310,969	\$ 1,310,971	\$ 983,350	\$ 983,350
7	Gross Revenue Conversion Factor	1.6453	1.6453	1.6438	1.6438
8	Required Revenue Increase (L7 * L6)	\$ 2,156,882	\$ 2,156,882	<b>\$ 1,616,477</b>	<b>\$ 1,616,477</b>
9	Adjusted Test Year Revenue	\$ 5,940,381	\$ 5,940,381	\$ 5,940,381	\$ 5,940,381
10	Proposed Annual Revenue (L8 + L9)	\$ 8,097,263	\$ 8,097,263	\$ 7,556,858	\$ 7,556,858
11	Required Increase in Revenue (%)	36.31%	36.31%	27.21%	27.21%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column (A): Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
----------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.0798%
3	Revenues (L1 - L2)	99.9202%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0873%
5	Subtotal (L3 - L4)	60.8329%
6	Revenue Conversion Factor (L1 / L5)	1.643847

Calculation of Uncollectible Factor:

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.1300%
11	Uncollectible Factor (L9 * L10)	0.0798%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 46)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-15, L25)	0.7954%
22	Effective Property Tax Factor (L20*L21)	0.4884%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L23)	39.0873%

24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 1,056,395
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$ 73,045
26	Required Increase in Operating Income (L24 - L25)	\$ 983,350
27	Income Taxes on Recommended Revenue (Col. (D), L45)	\$ 387,384
28	Income Taxes on Test Year Revenue (Col. (A), L45)	\$ (230,784)
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 618,168
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$ 1,616,477
31	Uncollectible Rate (Line 10)	0.1300%
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)	\$ 2,101
33	Property Tax with Recommended Revenue (GTM-15, Col B, L20)	\$ 154,768
34	Property Tax on Test Year Revenue (GTM-15, Col A, L17)	\$ 141,911
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)	\$ 12,858
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)	\$ 1,616,477

Calculation of Income Tax:

37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L9)	\$ 5,940,381
38	Operating Expenses Excluding Income Taxes	\$ 6,098,120
39	Synchronized Interest (L54)	\$ 440,165
40	Arizona Taxable Income (L37 - L38 - L39)	\$ (597,904)
41	Arizona State Income Tax Rate	6.9680%
42	Arizona Income Tax (L40 x L41)	\$ (41,662)
43	Federal Taxable Income (L40 - L42)	\$ (556,242)
44	Total Federal Income Tax	\$ (189,122)
45	Combined Federal and State Income Tax (L42 + L44)	\$ (230,784)

46 Effective Tax Rate

34.0000%

Calculation of Interest Synchronization:

47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	\$ 14,672,152
48	Weighted Average Cost of Debt	3.0000%
49	Synchronized Interest (L47 X L48)	\$ 440,165

(A)

Test Year	
Sun City Wastewater	
\$	5,940,381
\$	6,098,120
\$	440,165
\$	(597,904)
\$	6.9680%
\$	(41,662)
\$	(556,242)
\$	(189,122)
\$	(230,784)

(B)

Staff Recommended	
Sun City Wastewater	
\$	7,556,858
\$	6,113,079
\$	440,165
\$	1,003,614
\$	6.9680%
\$	69,932
\$	933,682
\$	317,452
\$	387,384

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 24,469,337	\$ 24,457,095
2	Less: Accumulated Depreciation	10,761,769	10,761,769
3	Net Plant in Service	<u>\$ 13,707,568</u>	<u>\$ 13,695,326</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 18,920	\$ 25,513
5	Less: Accumulated Amortization	6,593	6,593
6	Net CIAC	<u>12,327</u>	<u>18,920</u>
7	Advances in Aid of Construction (AIAC)	2,660,292	2,660,292
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	360,708	360,708
10	Accumulated Deferred Income Tax Credits	-	-
	Customer Meter Deposits	-	-
<u>ADD:</u>			
11	Cash Working Capital	129,827	103,799
12	Accumulated Deferred Income Tax Debits	1,824,256	1,777,184
13	Supplies Inventory	597	597
14	Prepayments	77,758	77,758
15	Deferred Debits	2,057,405	2,057,405
16	Purchase Wastewater Treatment Charges	-	-
	Rounding	3	3
17	<b>Original Cost Rate Base</b>	<u>\$ 14,764,087</u>	<u>\$ 14,672,152</u>

References:

Column (A), Company Schedule B-2

Column (B): Schedule GTM-4

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	Planning Study [B] ADJ #1	Working Capital [C] ADJ #2	Deferred Income Taxes [D] ADJ #3	CIAC associated with CWIP [E] ADJ #4	[F] STAFF ADJUSTED
<b>PLANT IN SERVICE:</b>								
1	351000	WWWOrganization	122,373					\$ 122,373
2	352000	WW Franchises	6,132					6,132
3	353200	WW Land & Ld Rights Coll	6,565					6,565
4	354200	WW Struct & Imp Coll	187,017					187,017
5	354500	WW Struct & Imp Gen	465,769					465,769
6	355400	WW Power Gen Equip TDP	48,003					48,003
7	360000	WW Collection Sewers Forced	2,397,611					2,397,611
8	361100	WW Collecting Mains	16,050,734					16,050,734
9	362000	WW Special Coll Struct	1,219,748					1,219,748
10	363000	WW Service Sewer	2,680,127					2,680,127
11	364000	WW Flow Measuring Devices	33,470					33,470
12	371100	WW Pump Equip Elect	495,398					495,398
13	380050	WW TD Equip Grit Removal	453					453
14	380100	WW TD Equip Sed Tanks/Acc	2,575					2,575
15	380600	WW TD Equip Oth Disp	1,503					1,503
16	380625	WW TD Equip Gen Tmt	115,202					115,202
17	380650	WW TD Equip Influent Lift S	178					178
18	382000	WW Outfall Sewer Lines	291					291
19	389100	WW Oth Plt & Misc Equip Int	10,495					10,495
20	389600	WW Oth Plt & Misc Equip	12,242	(12,242)				-
21	390000	WW Office Furniture & Equip	54,203					54,203
22	391000	WW Trans Equipment	2,312					2,312
23	393000	WW Tool Shop & Garage Equip	59,656					59,656
24	396000	WW Communication Equip	23,222					23,222
25	397000	WW Misc Equipment	13,207					13,207
26	398000	WW Other Tangible Equipment	1					1
27								
28		Less: Youngtown Plant	(96,727)					(96,727)
29								
30		Allocated From Corp to Districts (SLM-2)						
31	303600	Land & Land Rights AG	\$ -					\$ -
32	304510	Struct & Imp AG Cap Lease	-					-
33	304600	Struct & Imp Offices	-					-
34	304800	Struct & Imp Misc	-					-
35	304820	Struct & Imp Leasehold	27,697					27,697
36	3310001	Mains	-					-
37	339600	Other P/E CPS	7,234					7,234
38	340100	Office Furniture & Equip	161,494					161,494
39	340200	Comp & Periph Equip	70,145					70,145
40	340300	Computer Software	254,701					254,701
41	340330	Computer Software Other	6,549					6,549
42	340500	Other Office Equipment	-					-
43	341100	Trans Equip Lt Duty Trucks	-					-
44	343000	Tool Shop & Garage Equip	-					-
45	344000	Laboratory Equipment	-					-
46	345000	Power Operated Equipment	-					-
47	346100	Copmm Equip Non-Telephone	26,059					26,059
48	346200	Communication Equip Telephone	2,009					2,009
49	346300	Communication Equip Other	687					687
50	347000	Misc Equipment	-					-
51	380400	WW TD Equip Aux Eff Tmt	-					-
52	393000	WW Tool Shop & Garage Equip	-					-
53								
54		Rounding	2					2
55								
56		Total Plant in Service	24,469,337	(12,242)	-	-	-	24,457,095
57								
58		Accumulated Depreciation	10,761,769	-				10,761,769
59		Net Plant in Service (L58 - L 59)	\$ 13,707,568	\$ (12,242)	\$ -	\$ -	\$ -	\$ 13,695,326
60								
61		<b>LESS:</b>						
62		Contributions in Aid of Construction (CIAC)	\$ 18,920		\$ -	\$ -	\$ 6,593	\$ 25,513
63		Less: Accumulated Amortization	6,593	-	-	-	-	6,593
64		Net CIAC (L63 - L64)	12,327	-	-	-	6,593	18,920
65		Advances in Aid of Construction (AIAC)	2,660,292	-	-	-	-	2,660,292
66		Imputed Reg Advances	-	-	-	-	-	-
67		Imputed Reg CIAC	360,708	-	-	-	-	360,708
68		Accumulated Deferred Income Tax Credits	-	-	-	-	-	-
69		Customer Meter Deposits	-	-	-	-	-	-
70		<b>ADD:</b>						
71		Working Capital Allowance	129,827	-	(26,028)	-	-	103,799
72		Accumulated Deferred Income Tax Debits	1,824,256	-	-	(47,072)	-	1,777,184
73		Purchase Wastewater Treatment Charges	-	-	-	-	-	-
74		Material and Supplies Inventory	597	-	-	-	-	597
75		Prepayments	77,758	-	-	-	-	77,758
76		Projected Capital Expenditures	-	-	-	-	-	-
77		Deferred Debits	2,057,405	-	-	-	-	2,057,405
78		Rounding	3					3
79		Original Cost Rate Base	\$ 14,764,067	\$ (12,242)	\$ (26,028)	\$ (47,072)	\$ (6,593)	\$ 14,672,152

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Schedule GTM-5

RATE BASE ADJUSTMENT # 1 - COMPREHENSIVE PLANNING STUDY COSTS

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	389100	WW Oth Plt & Misc Equip Int	\$ 12,242	\$ (12,242)	\$ -

References:

Column [A]: Company Schedules

Column (B): Per Testimony GTM

Column (C): Column [A] less Column [B]

RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL

LINE NO	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG DAYS	[E] DOLLAR DAYS
1	Labor	\$ 454,529	\$ -	454,529	12.00	\$ 5,454,348
2	Fuel & Power	15,804	2,746	18,550	20.75	384,835
3	Chemicals	4,885	(4,885)	-	20.35	-
4	Waste Disposal	3,300,475	-	3,300,475	43.73	144,345,944
5	Management Fees	933,155	-	933,155	14.77	13,784,099
6	Group Insurance	141,193	-	141,193	(13.67)	(1,930,292)
7	Pensions	75,595	-	75,595	(2.37)	(179,039)
8	Insurance Other Than Group	57,656	-	57,656	(83.68)	(4,824,908)
9	Customer Accounting	145,686	(107,200)	38,486	20.31	781,644
10	Rents	40,868	-	40,868	-	-
11	Miscellaneous	104,503	-	104,503	12.47	1,303,163
12	Maintenance Expense	61,533	-	61,533	29.75	1,830,379
13	Other Operating Expenses	94,627	-	94,627	30.00	2,838,810
14	Taxes Other Than Income-Property Taxes	157,456	(2,688)	154,768	189.67	29,354,897
15	Taxes Other Than Income-Other	34,880	-	34,880	13.35	465,515
16	Income Taxes	513,251	(125,867)	387,384	30.13	11,671,875
17	Interest	442,923	(2,758)	440,165	106.25	46,767,484
18	Total Operating Expenses	6,579,019	(240,653)	6,338,366	443.81	252,048,754
19						
20						
21	Expense Lag	Line 20, Col. (E) / Col [C]	39.77			
22	Revenue Lag	Company Workpapers	45.74			
23	Net Lag	Line 22 - 21	5.98			
24	Staff Adjusted Expenses	Line 20, Col C	6,338,366			
25	Staff - Cash Working Capital	Line 25 * Line 26/365 day	103,799			
26	Company As Filed	Co Schedule B-5	129,827			
27	Staff Adjustment	To GTM-4	(26,028)			
28						
29	References:					
30	Column [A]: Company Schedule C-1					
31	Column [B]: Staff adjustments to expenses, See Testimony GTM					
32	Column [C]: Column [A] + Column [B]					
33	Column [D]: Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372					
34	Column [E]: Column [C] * Column [D]					

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Schedule GTM- 7

RATE BASE ADJUSTMENT # 3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS <u>FILED</u>		[B] STAFF ADJUSTMENTS		[C] STAFF AS <u>ADJUSTED</u>	
1	ADIT - total	\$	13,025,093	\$	(336,093)	\$	12,689,000
2	Allocation Factor		14.01%		14.01%		14.01%
3	ADIT allocated to this system		1,824,256		(47,072)		1,777,183

REFERENCES:

Columns [A], Line 1: Amounts used by Co as basis for allocation  
Column [A], [B] & [C], Line 2: Allocation rate to this system  
Column [C], Line 1: Allocable amount per audited financial statements times allocation rate  
Column [A], [B] & [C], Line 3: Recalculated amounts

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Schedule GTM - 8

RATE BASE ADJUSTMENT # 4 - CIAC ASSOCIATED WITH CWIP

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Contributions in Aid of Construction (CIAC)	18,920	6,593	25,513

REFERENCES:

Columns [A]: Company schedules  
Column [B]: Column [C] less Column [A]  
Column [C]: See testimony GTM

OPERATING INCOME STATEMENT TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 5,933,970	\$ -	\$ 5,933,970	\$ 1,616,477	\$ 7,550,447
3	Other Revenues	6,411	-	6,411	-	6,411
4	Other	-	-	-	-	-
5	Total Operating Revenues	\$ 5,940,381	\$ -	\$ 5,940,381	\$ 1,616,477	\$ 7,556,858
6						
7	Labor	\$ 454,529	\$ -	454,529	\$ -	\$ 454,529
8	Purchased Water	\$ -	-	-	-	-
9	Fuel & Power	\$ 15,804	2,746	18,550	-	18,550
10	Chemicals	\$ 4,885	-	4,885	-	4,885
11	Waste Disposal	\$ 3,300,475	-	3,300,475	-	3,300,475
12	Management Fees	\$ 933,155	-	933,155	-	933,155
13	Group Insurance	\$ 141,193	-	141,193	-	141,193
14	Pensions	\$ 75,595	-	75,595	-	75,595
15	Regulatory Expense	\$ 49,683	(9,406)	40,277	-	40,277
16	Insurance Other Than Group	\$ 57,656	-	57,656	-	57,656
17	Customer Accounting	\$ 145,686	(50,872)	94,814	2,101	96,916
18	Rents	\$ 40,868	-	40,868	-	40,868
19	General Office Expense	\$ 44,944	-	44,944	-	44,944
20	Miscellaneous	\$ 104,503	-	104,503	-	104,503
21	Maintenance Expense	\$ 61,533	-	61,533	-	61,533
22	Depreciation & Amortization	\$ 679,999	(131,647)	548,352	-	548,352
23	General Taxes-Property Taxes	\$ 157,456	(15,545)	141,911	12,858	154,768
24	General Taxes-Other	\$ 34,880	-	34,880	-	34,880
25	Income Taxes	\$ (310,869)	80,085	(230,784)	618,168	387,384
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	Total Operating Expenses	5,991,975	(124,639)	5,867,336	633,127	6,500,463
42	Operating Income (Loss)	\$ (51,594)	\$ 124,639	\$ 73,045	\$ 983,350	\$ 1,056,395

References:

Column (A): Company Schedule C-1

Column (B): Schedule GTM 11

Column (C): Column (A) + Column (B)

Column (D): Schedules GTM 2, Lines 29 and 37

Column (E): Column (C) + Column (D)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER

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Schedule GTM-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Fuel & Power ADJ #1	[C] Customer Acctg ADJ #2	[D] Depreciation ADJ #3	[E] Property Taxes ADJ #4	[F] Income Taxes ADJ #5	[G] Regulatory Expense ADJ #6	[H] STAFF ADJUSTED
1									
2	Sewer Revenues	\$ 5,933,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,933,970
3	Other Revenues	6,411	-	-	-	-	-	-	6,411
4	Other	-	-	-	-	-	-	-	-
5	Total Operating Revenues	\$ 5,940,381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,940,381
6									
7	Labor	\$ 454,529	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	454,529
8	Purchased Water	-	-	-	-	-	-	-	-
9	Fuel & Power	15,804	2,746	-	-	-	-	-	18,550
10	Chemicals	4,885	-	-	-	-	-	-	4,885
11	Waste Disposal	3,300,475	-	-	-	-	-	-	3,300,475
12	Management Fees	933,155	-	-	-	-	-	-	933,155
13	Group Insurance	141,193	-	-	-	-	-	-	141,193
14	Pensions	75,595	-	-	-	-	-	-	75,595
15	Regulatory Expense	49,683	-	-	-	-	-	(9,406)	40,277
16	Insurance Other Than Group	57,656	-	-	-	-	-	-	57,656
17	Customer Accounting	145,886	-	(50,872)	-	-	-	-	94,814
18	Rents	40,868	-	-	-	-	-	-	40,868
19	General Office Expense	44,944	-	-	-	-	-	-	44,944
20	Miscellaneous	104,503	-	-	-	-	-	-	104,503
21	Maintenance Expense	61,533	-	-	-	-	-	-	61,533
22	Depreciation & Amortization	679,999	-	-	(131,647)	-	-	-	548,352
23	General Taxes-Property Taxes	157,456	-	-	-	(15,545)	-	-	141,911
24	General Taxes-Other	34,880	-	-	-	-	-	-	34,880
25	Income Taxes	(310,869)	-	-	-	-	80,085	-	(230,784)
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36									
37									
38									
39									
40									
41									
42	Total Operating Expenses	\$ 5,991,975	\$ 2,746	\$ (50,872)	\$ (131,647)	\$ (15,545)	\$ 80,085	\$ (9,406)	\$ 5,867,336
43	Operating Income (Loss)	\$ (51,594)	\$ (2,746)	\$ 50,872	\$ 131,647	\$ 15,545	\$ (80,085)	\$ 9,406	\$ 73,045

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Schedule GTM-12

OPERATING INCOME ADJUSTMENT # 1 - FUEL & POWER

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Actual Test Year Fuel & Power	\$ 15,804	2,746	\$ 18,550

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 2 - CUSTOMER ACCOUNTING (BAD DEBT)

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Total Uncollectible Accounts	\$ 1,152,299		
2	Uncollectible Accounts- Miscellaneous Invoices	\$ (361,154)		
3	Net Used in Company calculation	\$ 791,145		
4	Allocation Percentage-	7.39%		
5	Bad Debts included in Cust. Accounting	\$ 58,430		
6				
7	Staff Adjusted Test Year Revenue			\$ 5,940,381
8	3-year average Bad Debt Exp. Rate, Per Co.			0.13%
9	Staff Recommended Bad Debt Exp			\$ 7,558
10				
11	Adjustment		\$ (50,872)	

References:

Column [A], Company Workpapers  
Column [B]: Col. [C], line 9, less Col [A], line 5  
and Testimony GTM.  
Column (C): Line 8, Per Company's Workpapers  
Column (C): Line 9 Staff's recommended Bad  
Debt Expense, based on 3-year average  
loss history times Staff Recommended Revenues

OPERATING INCOME ADJUSTMENT # 3- DEPRECIATION EXPENSE

LINE NO.		DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Depreciation & Amortization	\$ 679,999	\$ (131,647)	\$ 548,352

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
2		PLANT IN SERVICE:	B-2, page 3		
3	351000	WWWOrganization	122,373	0.00%	-
4	352000	WW Franchises	6,132	0.00%	-
5	353200	WW Land & Ld Rights Coll	6,565	0.00%	-
6	354200	WW Struct & Imp Coll	187,017	2.50%	4,675
7	354500	WW Struct & Imp Gen	485,769	1.67%	7,778
8	355400	WW Power Gen Equip TDP	49,003	3.33%	1,632
9	360000	WW Collection Sewers Forced	2,397,611	2.07%	49,631
10	361100	WW Collecting Mains	16,050,734	2.03%	325,830
11	362000	WW Special Coll Struct	1,219,748	8.40%	102,459
12	363000	WW Service Sewer	2,680,127	2.04%	54,675
13	364000	WW Flow Measuring Devices	33,470	10.00%	3,347
14	371100	WW Pump Equip Elect	495,398	5.42%	26,851
15	380050	WW TD Equip Gril Removal	453	2.00%	9
16	380100	WW TD Equip Sed Tanks/Acc	2,575	2.00%	52
17	380600	WW TD Eauip Oth Disp	1,503	2.00%	30
18	380625	WW TD Eauip Gen Tmt	115,202	2.00%	2,304
19	380650	WW TD Equip Influent Lift S	178	2.00%	4
20	382000	WW Outfall Sewer Lines	291	2.00%	6
21	389100	WW Oth Pit & Misc Equip Int	10,495	4.98%	523
22	389600	WW Oth Pit & Misc Equip	-	4.98%	-
23	390000	WW Office Furniture & Equip	54,203	4.59%	2,488
24	391000	WW Trans Equipment	2,312	20.00%	462
25	393000	WW Tool Shop & Garage Equip	59,656	4.47%	2,667
26	396000	WW Communication Equip	23,222	10.28%	2,387
27	397000	WW Misc Equipment	13,207	5.10%	674
28	398000	WW Other Tangible Equipment	1	0.00%	-
29			-		-
30	Less:	Youngtown Plant	(96,727)		-
31					
32		Allocated From Corp to Districts (SLM-2)	B-2 page 4		
33	303600	Land & Land Rights AG	-	0.00%	-
34	304510	Struct & Imp AG Cap Lease	-	0.00%	-
35	304600	Struct & Imp Offices	-	0.00%	-
36	304800	Struct & Imp Misc	-	1.67%	-
37	304620	Struct & Imp Leasehold	27,697	0.00%	-
38	3310001	Mains	-	1.53%	-
39	339600	Other P/E CPS	7,234	3.30%	239
40	340100	Office Furniture & Equip	161,494	4.04%	6,524
41	340200	Comp & Periph Equip	70,145	10.00%	7,015
42	340300	Computer Software	254,701	25.00%	63,675
43	340330	Computer Software Other	8,549	25.00%	1,637
44	340500	Other Office Equipment	-	0.00%	-
45	341100	Trans Equip Lt Duty Trucks	-	0.00%	-
46	343000	Tool Shop & Garage Equip	-	0.00%	-
47	344000	Laboratory Equipment	-	0.00%	-
48	345000	Power Operated Equipment	-	0.00%	-
49	346100	Copmm Equip Non-Telephone	26,059	0.00%	-
50	346200	Communication Equip Telephone	2,009	9.76%	196
51	346300	Communication Equip Other	687	0.00%	-
52	347000	Misc Equipment	-	0.00%	-
53	380400	WW TD Equip Aux Eff Tmt	-	0.00%	-
54	393000	WW Tool Shop & Garage Equip	-	4.74%	-
55					
56		Rounding	2		
57		Total Plant in Service	24,457,095	2.73%	667,768
58					
59					
60		Less Non Depreciable Plant			
61	351000	WWWOrganization	122,373	0.00%	-
62	353200	WW Land & Ld Rights Coll	6,565	0.00%	-
63	355400	WW Power Gen Equip TDP	49,003	0.00%	-
64					
65		Net Depreciable Plant and Depreciation Amounts	\$ 24,279,154		\$ 667,768
66		Composite Depreciation Rate		2.75%	
67		Less			
68		Amortization of Regulatory CIAC at Settlement Rate			118,714
69		Amortization of CIAC at Composite Rate	\$ 25,513		\$ 702
70		Staff Recommended Depreciation Expense			\$ 548,352
71		Company Proposed Depreciation Expense			\$ 679,999
72		Staff Adjustment			\$ (131,647)

	References:
Col A	Schedule GTM-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

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Schedule GTM-15

OPERATING INCOME ADJUSTMENT # 4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 5,940,381	\$ 5,940,381
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	11,880,762	11,880,762
4	Staff Adjusted Test Year Revenues - 2008	5,940,381	
5	Staff Recommended Revenue		7,556,858
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	17,821,143	19,437,620
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	5,940,381	6,479,207
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	11,880,762	12,958,413
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	11,894,216	12,971,867
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	2,616,728	2,853,811
16	Composite Property Tax Rate - Obtained from ADOR	5.42%	5.42%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 141,911	
18	Company Proposed Property Tax	\$ 157,456	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (15,545)	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 154,768
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 141,911
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 12,858
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 12,858
24	Increase in Revenue Requirement		\$ 1,616,477
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		0.79540%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Schedule C-1, Line 24

Line 21: Line 19 - Line 20

Line 23: Schedule GTM-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-16

OPERATING INCOME ADJUSTMENT # 5 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ (310,869)</u>	<u>\$ 80,085</u>	<u>\$ (230,784)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-17

OPERATING INCOME ADJUSTMENT # 6 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	\$ 49,683	\$ (9,406)	\$ 40,277

References:

Column (A), Company Schedule C-2 , p 16  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

**ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER**

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

**DIRECT TESTIMONY OF GARY T. MCMURRY**

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ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 17,821,339	\$ 17,821,339	\$ 18,169,383	\$ 18,169,383
2	Adjusted Operating Income (Loss)	\$ 618,443	\$ 618,443	\$ 352,039	\$ 352,039
3	Current Rate of Return (L2 / L1)	3.47%	3.47%	1.94%	1.94%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 1,520,160	\$ 1,520,160	\$ 1,308,196	\$ 1,308,196
6	Operating Income Deficiency (L5 - L2)	\$ 901,717	\$ 901,717	\$ 956,157	\$ 956,157
7	Gross Revenue Conversion Factor	1.6422	1.6422	1.6422	1.6422
8	Required Revenue Increase (L7 * L6)	\$ 1,480,765	\$ 1,480,765	<b>\$ 1,570,191</b>	<b>\$ 1,570,191</b>
9	Adjusted Test Year Revenue	\$ 5,661,710	\$ 5,661,710	\$ 5,661,710	\$ 5,661,710
10	Proposed Annual Revenue (L8 + L9)	\$ 7,142,475	\$ 7,142,475	\$ 7,231,901	\$ 7,231,901
11	Required Increase in Revenue (%)	26.15%	26.15%	27.73%	27.73%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column (A): Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
----------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.0184%
3	Revenues (L1 - L2)	99.9816%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0873%
5	Subtotal (L3 - L4)	60.8943%
6	Revenue Conversion Factor (L1 / L5)	1.642189

Calculation of Uncollectible Factor

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.0300%
11	Uncollectible Factor (L9 * L10)	0.0184%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-16, L24)	0.7954%
22	Effective Property Tax Factor (L20*L21)	0.4884%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	39.0873%

24	Required Operating Income (Schedule GTM-1, Line 5)	\$	1,308,196
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$	352,039
26	Required Increase in Operating Income (L24 - L25)	\$	956,157
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$	479,720
28	Income Taxes on Test Year Revenue (Col. (A), L52)	\$	(121,353)
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$	601,074
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$	1,570,191
31	Uncollectible Rate (Line 10)		0.0300%
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)	\$	471
33	Property Tax with Recommended Revenue (GTM-15, Col B, L20)	\$	147,750
34	Property Tax on Test Year Revenue (GTM-15, Col A, L17)	\$	135,261
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)	\$	12,489
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)	\$	1,570,191

(A)

Test Year	
Sun City WestWW	
\$	5,661,710
\$	5,431,025
\$	545,082
\$	(314,396)
\$	6.9680%
\$	(21,907)
\$	(292,489)
\$	(99,446)
\$	(121,353)

(B)

Staff Recommended	
Sun City West WW	
\$	7,231,901
\$	5,443,985
\$	545,082
\$	1,242,835
\$	6.9680%
\$	86,601
\$	1,156,234
\$	393,120
\$	479,720

Calculation of Income Tax:

37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L9)	
38	Operating Expenses Excluding Income Taxes	
39	Synchronized Interest (L54)	
40	Arizona Taxable Income (L37 - L38 - L39)	
41	Arizona State Income Tax Rate	
42	Arizona Income Tax (L40 x L41)	
43	Federal Taxable Income (L40 - L42)	
44	Total Federal Income Tax	
45	Combined Federal and State Income Tax (L42 + L44)	

46 Effective Tax Rate

34.0000%

Calculation of Interest Synchronization:

47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	\$	18,169,383
48	Weighted Average Cost of Debt		3.0000%
49	Synchronized Interest (L47 X L48)	\$	545,082

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 35,931,696	\$ 36,983,761
2	Less: Accumulated Depreciation	19,183,739	19,813,983
3	Net Plant in Service	<u>\$ 16,747,957</u>	<u>\$ 17,169,778</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 5,122	\$ 5,122
5	Less: Accumulated Amortization	(375)	(375)
6	Net CIAC	<u>4,747</u>	<u>4,747</u>
7	Advances in Aid of Construction (AIAC)	145,453	145,453
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	443,212	443,212
10	Accumulated Deferred Income Tax Credits Customer Meter Deposits	- -	- -
<u>ADD:</u>			
11	Cash Working Capital	229,465	187,766
12	Accumulated Deferred Income Tax Debits	1,243,135	1,211,058
13	Supplies Inventory	32,436	32,436
14	Prepayments	52,988	52,988
15	Deferred Debits	108,771	108,771
16	Purchase Wastewater Treatment Charges	-	-
	Rounding	(1)	(1)
17	<b>Original Cost Rate Base</b>	<u>\$ 17,821,339</u>	<u>\$ 18,169,383</u>

References:

Column (A), Company Schedule B-2

Column (B): Schedule GTM-4

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS			NWVRTF	Working	Deferred	Comprehensive	Accumulated		
			Cost Allocation	Capital	Income Taxes	Study Costs	Depreciation		
LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] STAFF ADJUSTED
PLANT IN SERVICE:									
1	351000	WWWOrganization	\$ 4,078					\$	4,078
2	352000	WW Franchises	68						68
3	353200	WW Land & Ld Rights Coll	-						-
4	354200	WW Struct & Imp Coll	130,873						130,873
5	354500	WW Struct & Imp Gen	48,870						48,870
6	355300	WW Power Gen Equip SPP	25,840						25,840
7	355400	WW Power Gen Equip TDP	-						-
8	360000	WW Collection Sewers Forced	752,939				12,242		765,181
9	361100	WW Collecting Mains	13,101,343						13,101,343
10	362000	WW Special Coll Struct	963,907						963,907
11	363000	WW Service Sewer	2,641,009						2,641,009
12	364000	WW Flow Measuring Devices	-						-
13	371100	WW Pump Equip Elect	27,605						27,605
14	380050	WW TD Equip Grit Removal	-						-
15	380100	WW TD Equip Sed Tanks/Acc	7,615						7,615
16	380600	WW TD Equip Oth Disp	5,634						5,634
17	380625	WW TD Equip Gen Trmt	110,053						110,053
18	380650	WW TD Equip Influent Lift S	19,530						19,530
19	382000	WW Outfall Sewer Lines	-						-
20	389100	WW Oth Pit & Misc Equip Int	-						-
21	389600	WW Oth Pit & Misc Equip	-						-
22	390000	WW Office Furniture & Equip	-						-
23	391000	WW Trans Equipment	-						-
24	393000	WW Tool Shop & Garage Equip	-						-
25	395000	WW Power Operated Equip	777						777
26	396000	WW Communication Equip	12,621						12,621
27	397000	WW Misc Equipment	22,663						22,663
28	398000	WW Other Tangible Equipment	-						-
29									
30		Allocated From Corp to Districts (SLM-2)							
31	303600	Land & Land Rights AG	\$ -					\$	-
32	304510	Struct & Imp AG Cap Lease	-						-
33	304600	Struct & Imp Offices	-						-
34	304800	Struct & Imp Misc	-						-
35	304620	Struct & Imp Leasehold	18,874						18,874
36	3310001	Mains	-						-
37	339600	Other P/E CPS	4,930						4,930
38	340100	Office Furniture & Equip	110,050						110,050
39	340200	Comp & Periph Equip	47,801						47,801
40	340300	Computer Software	173,566						173,566
41	340330	Computer Software Other	4,463						4,463
42	340500	Other Office Equipment	-						-
43	341100	Trans Equip Lt Duty Trucks	-						-
44	343000	Tool Shop & Garage Equip	-						-
45	344000	Laboratory Equipment	-						-
46	345000	Power Operated Equipment	-						-
47	346100	Comm Equip Non-Telephone	17,760						17,760
48	346200	Communication Equip Telephone	1,369						1,369
49	346300	Communication Equip Other	468						468
50	347000	Misc Equipment	-						-
51	380400	WW TD Equip Aux Eff Trmt	-						-
52	393000	WW Tool Shop & Garage Equip	-						-
53									
54		North West Valley Treat Plant (NWVRTF) B-2 p 9							
55	352000	WW Franchises	887	52					939
56	353200	WW Land & Ld Rights Coll	307,913	18,113					326,026
57	353500	WW Land & Ld Rights Gen	14,108	830					14,938
58	354200	WW Struct & Imp Coll	1,871,614	110,095					1,981,709
59	354300	WW Struct & Imp SPP	658,418	38,730					697,148
60	354400	WW Struct & Imp TDP	-	-					-
61	354500	WW Struct & Imp Gen	1,086,830	63,931					1,150,761
62	355200	WW Power Gen Equip Col	5,407	318					5,725
63	355300	WW Power Gen Equip SPP	-	-					-
64	360000	WW Collection Sewers Forced	-	-					-
65	361100	WW Collecting Mains	74,660	4,392					79,052
66	362000	WW Special Coll Struct	352,131	20,714					372,845
67	363000	WW Service Sewer	17,606	1,036					18,642
68	364000	WW Flow Measuring Devices	3,739	220					3,959
69	370000	WW Receiving Wells	-	-					-
70	371100	WW Pump Equip Elect	275,127	16,184					291,311
71	371200	WW Pump Equip Other	252	15					267
72	380000	WW TD Equipment	1,432,178	84,246					1,516,424
73	380050	WW TD Equip Grit Removal	749,658	44,098					793,756
74	380100	WW TD Equip Sed Tanks/Acc	3,650,565	214,739					3,865,304
75	380200	WW TD Equip Sldge/Effl Rmv	35,551	2,091					37,642
76	380250	WW TD Equip Sldge Dig Trnk	48,656	2,862					51,518
77	380300	WW TD Equip Sldge Dry/Fitt	4,100,856	241,227					4,342,083
78	380350	WW TD Equip Sec Trmt Fitt	17,384	1,023					18,407
79	380400	WW TD Equip Aux Effl Trmt	873,055	51,356					924,411
80	380500	WW TD Equip Chem Trmt Plant	1,379	81					1,460
81	380600	WW TD Equip Oth Disp	706,938	41,585					748,523
82	380625	WW TD Equip Gen Trmt	538,528	31,678					570,206

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS			NWVRTF Cost Allocation	Working Capital	Deferred Income Taxes	Comprehensive Study Costs	Accumulated Depreciation		
LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] STAFF ADJUSTED
83	380650	WW TD Equip Influent Lift S	48,971	2,881					51,852
84	381000	WW Plant Sewers	11,159	656					11,815
85	382000	WW Outfall Sewer Lines	79,832	4,696					84,528
86	389100	WW Oth Pft & Misc Equip Int	13,168	775					13,943
87	389600	WW Oth Pft & Misc Equip	-	-					-
88	390000	WW Office Furniture & Equip	114,284	6,723					121,007
89	390200	WW Computer & Perphials	13,704	806					14,510
90	390300	WW Computer Software	42,823	2,519					45,342
91	391000	WW Trans Equip	182,883	9,580					192,463
92	392000	WW Stores Equip	7,663	451					8,114
93	393000	WW Tool Shop & Garage Equip	84,476	4,969					89,445
94	394000	WW Laboratory Equipment	67,116	3,948					71,064
95	395000	WW Power Operated Equipment	8,809	518					9,327
96	396000	WW Comm Equip	151,095	8,888					159,983
97	397000	WW Misc Equip	47,591	2,799					50,390
98	398000	WW Other Tangible Plant	-	-					-
99		Rounding	(4)						(4)
100									
101	Total Plant in Service		35,931,896	1,039,823	-	-	12,242	-	36,983,761
102									
103	Accumulated Depreciation		19,183,739	-				630,244	19,813,983
104	Net Plant in Service (L58 - L 59)		\$ 16,747,957	\$ 1,039,823	\$ -	\$ -	\$ 12,242	\$ (630,244)	\$ 17,169,777
105									
106	LESS:								
107	Contributions in Aid of Construction (CIAC)	\$	5,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,122
108	Less: Accumulated Amortization	\$	(375)	-	-	-	-	-	(375)
109	Net CIAC (L63 - L64)		4,747	-	-	-	-	-	4,747
110	Advances in Aid of Construction (AIAC)		145,453	-	-	-	-	-	145,453
111	Imputed Reg Advances		-	-	-	-	-	-	-
112	Imputed Reg CIAC		443,212	-	-	-	-	-	443,212
113	Deferred Income Tax Credits		-	-	-	-	-	-	-
114	Customer Meter Deposits		-	-	-	-	-	-	-
115	ADD:								
116	Working Capital Allowance		229,465	-	(41,699)	-	-	-	187,766
117	Deferred Income Tax Debits		1,243,135	-	-	(32,077)	-	-	1,211,058
118	Purchase Wastewater Treatment Charges		-	-	-	-	-	-	-
119	Material and Supplies Inventory		32,436	-	-	-	-	-	32,436
120	Prepayments		52,988	-	-	-	-	-	52,988
121	Projected Capital Expenditures		-	-	-	-	-	-	-
122	Deferred Debits		108,771	-	-	-	-	-	108,771
123	Rounding		(1)	-	-	-	-	-	(1)
124	Original Cost Rate Base		\$ 17,821,339	\$ 1,039,823	\$ (41,699)	\$ (32,077)	\$ 12,242	\$ (630,244)	\$ 18,169,383

RATE BASE ADJUSTMENT # 1 - NW VALLEY REGIONAL TREATMENT FACILITY (NWWRTF) ADJUSTMENT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
352000		WW Franchises	887	52	939
353200		WW Land & Ld Rights Coll	307,913	18,113	326,026
353500		WW Land & Ld Rights Gen	14,108	830	14,938
354200		WW Struct & Imp Coll	1,871,614	110,095	1,981,709
354300		WW Struct & Imp SPP	658,418	38,730	697,148
354400		WW Struct & Imp TDP	-	-	-
354500		WW Struct & Imp Gen	1,086,830	63,931	1,150,761
355200		WW Power Gen Equip Col	5,407	318	5,725
355300		WW Power Gen Equip SPP	-	-	-
360000		WW Collection Sewers Forced	-	-	-
361100		WW Collecting Mains	74,660	4,392	79,052
362000		WW Special Coll Struct	352,131	20,714	372,845
363000		WW Service Sewer	17,606	1,036	18,642
364000		WW Flow Measuring Devices	3,739	220	3,959
370000		WW Receiving Wells	-	-	-
371100		WW Pump Equip Elect	275,127	16,184	291,311
371200		WW Pump Equip Other	252	15	267
380000		WW TD Equipment	1,432,178	84,246	1,516,424
380050		WW TD Equip Grit Removal	749,658	44,098	793,756
380100		WW TD Equip Sed Tanks/Acc	3,650,565	214,739	3,865,304
380200		WW TD Equip Sldge/Effl Rmv	35,551	2,091	37,642
380250		WW TD Equip Sldge Dig Trnk	48,656	2,862	51,518
380300		WW TD Equip Sldge Dry/Fitt	4,100,856	241,227	4,342,083
380350		WW TD Equip Sec Trmt Fitt	17,384	1,023	18,407
380400		WW TD Equip Aux Effl Trmt	873,055	51,356	924,411
380500		WW TD Equip Chem Trmt Plant	1,379	81	1,460
380600		WW TD Equip Oth Disp	706,938	41,585	748,523
380625		WW TD Equip Gen Trmt	538,528	31,678	570,206
380650		WW TD Equip Influent Lift S	48,971	2,881	51,852
381000		WW Plant Sewers	11,159	656	11,815
382000		WW Outfall Sewer Lines	79,832	4,696	84,528
389100		WW Oth Plt & Misc Equip Int	13,168	775	13,943
389600		WW Oth Plt & Misc Equip	-	-	-
390000		WW Office Furniture & Equip	114,284	6,723	121,007
390200		WW Computer & Perphials	13,704	806	14,510
390300		WW Computer Software	42,823	2,519	45,342
391000		WW Trans Equip	162,863	9,580	172,443
392000		WW Stores Equip	7,663	451	8,114
393000		WW Tool Shop & Garage Equip	84,476	4,969	89,445
394000		WW Laboratory Equipment	67,116	3,948	71,064
395000		WW Power Operated Equipment	8,809	518	9,327
396000		WW Comm Equip	151,095	8,888	159,983
397000		WW Misc Equip	47,591	2,799	50,390
398000		WW Other Tangible Plant	-	-	-
			17,676,994	1,039,823	18,716,817

Cost Allocation Percentage	Old	New
Sun City West	68%	72%
Anthem Agua Fria	32%	28%

References:

Column [A]: Amounts included in plant balances per filing.

Column [B]: Per Testimony GTM

Column [C]: Column [A] less Column [B]

RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG FACTOR	[E] DOLLAR DAYS
1	Labor	\$ 766,759	\$ 17,587	784,346	12.0	\$ 9,412,154
2	Purchased Water	\$ 7,156	1,878	9,034	52.5	\$ 474,465
3	Fuel & Power	\$ 385,512	265,325	650,837	23.2	\$ 15,088,410
4	Chemicals	\$ 401,682	(401,682)	-	17.3	\$ -
5	Waste Disposal	\$ 103,272	-	103,272	19.9	\$ 2,058,438
6	Management Fees	\$ 789,604	6,054	795,658	14.8	\$ 11,753,069
7	Group Insurance	\$ 267,064	54	267,118	(13.6)	\$ (3,636,919)
8	Pensions	\$ 150,285	-	150,285	(2.4)	\$ (355,935)
9	Insurance Other Than Group	\$ 48,786	-	48,786	(83.7)	\$ (4,082,627)
10	Customer Accounting	\$ 123,968	(112,349)	11,619	20.3	\$ 235,976
11	Rents	\$ 38,079	883	38,962	-	\$ -
12	Miscellaneous	\$ 243,174	21,196	264,370	9.9	\$ 2,619,215
13	Maintenance Expense	\$ 138,620	6,143	144,763	26.1	\$ 3,783,488
14	Other Operating Expenses	\$ 93,744	-	93,744	30.0	\$ 2,812,320
15	Taxes					
16	Taxes Other Than Income-Property Taxes	\$ 135,172	12,578	147,750	188.0	\$ 27,774,729
17	Taxes Other Than Income-Other	\$ 58,909	-	58,909	13.3	\$ 786,211
18	Income Taxes	\$ 52,682	427,038	479,720	30.1	\$ 14,453,977
19	Interest Sync	534,640	10,442	545,082	106.3	57,914,910
20	Total Operating Expenses	4,339,108	255,146	4,594,254	464.1	141,091,882
21						
22						
23	Expense Lag	Line 20, Col. (E) / Col [C]	30.71			
24	Revenue Lag	Company Workpapers	45.63			
25	Net Lag	Line 24 - 23	14.92			
26	Staff Adjusted Expenses	Line 20, Col C	4,594,254			
27	Staff - Cash Working Capital	Line 25 * Line 26/365 day	187,766			
28	Company As Filed	Co Schedule B-5	229,465			
29	Staff Adjustment	To GTM-4	(41,699)			
30						
31	References:					
32	Column [A]: Company Schedule C-1					
33	Column [B]: Staff adjustments to expenses, See Testimony GTM					
34	Column [C]: Column [A] + Column [B]					
35	Column [D]: Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372					
36	Column [E]: Column [C] * Column [D]					

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RATE BASE ADJUSTMENT # 3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	ADIT - total	\$ 13,025,093	\$ (336,093)	\$ 12,689,000
2	Allocation Factor	9.54%	9.54%	9.54%
3	ADIT allocated to this system	1,243,135	(32,077)	1,211,058

REFERENCES:

Columns [A], Line 1: Amounts used by Co as basis for allocation

Column [A], [B] & [C], Line 2: Allocation rate to this system

Column [C], Line 1: Allocable amount per audited financial statements times allocation rate

Column [A], [B] & [C], Line 3: Recalculated amounts

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
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RATE BASE ADJUSTMENT # 4 - COMPREHENSIVE STUDY PLANNING COST

LINE NO.	DESCRIPTION		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	WW Collection Sewers Forced	360000	\$ 752,939	\$ 12,242	\$ 765,181

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RATE BASE ADJUSTMENT # 5 - ACCUMULATED DEPRECIATION (NWVRTF)

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 8,469,585	\$ -	\$ 8,469,585
	Accum Depreciaton - NWVRTF	10,714,154	630,244	11,344,398
	Total Accumulated Depreciation	<u>\$ 19,183,739</u>	<u>\$ 630,244</u>	<u>\$ 19,813,983</u>

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 5,660,389	\$ -	\$ 5,660,389	\$ 1,570,191	\$ 7,230,580
3	Other Revenues	1,321	-	1,321	-	1,321
4	Other	-	-	-	-	-
5	<b>Total Operating Revenues</b>	<b>\$ 5,661,710</b>	<b>\$ -</b>	<b>\$ 5,661,710</b>	<b>\$ 1,570,191</b>	<b>\$ 7,231,901</b>
6						
7	Labor	\$ 766,759	\$ 17,587	784,346	\$ -	\$ 784,346
8	Purchased Water	\$ 7,156	1,878	9,034	-	9,034
9	Fuel & Power	\$ 385,512	265,325	650,837	-	650,837
10	Chemicals	\$ 401,682	74,553	476,235	-	476,235
11	Waste Disposal	\$ 103,272	-	103,272	-	103,272
12	Management Fees	\$ 789,604	6,054	795,658	-	795,658
13	Group Insurance	\$ 267,064	54	267,118	-	267,118
14	Pensions	\$ 150,285	-	150,285	-	150,285
15	Regulatory Expense	\$ 43,794	(9,406)	34,388	-	34,388
16	Insurance Other Than Group	\$ 48,786	-	48,786	-	48,786
17	Customer Accounting	\$ 123,968	(55,609)	68,359	471	68,830
18	Rents	\$ 38,079	883	38,962	-	38,962
19	General Office Expense	\$ 49,950	393	50,343	-	50,343
20	Miscellaneous	\$ 243,174	21,196	264,370	-	264,370
21	Maintenance Expense	\$ 138,620	6,143	144,763	-	144,763
22	Depreciation & Amortization	\$ 1,238,799	111,301	1,350,100	-	1,350,100
23	General Taxes-Property Taxes	\$ 135,172	89	135,261	12,489	147,750
24	General Taxes-Other	\$ 58,909	-	58,909	-	58,909
25	Income Taxes	\$ 52,682	(174,035)	(121,353)	601,074	479,720
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	<b>Total Operating Expenses</b>	<b>5,043,287</b>	<b>266,404</b>	<b>5,309,671</b>	<b>614,034</b>	<b>5,923,706</b>
42	<b>Operating Income (Loss)</b>	<b>\$ 618,443</b>	<b>\$ (266,404)</b>	<b>\$ 352,039</b>	<b>\$ 956,157</b>	<b>\$ 1,308,195</b>

References:

Column (A): Company Schedule C-1

Column (B): Schedule GTM 11

Column (C): Column (A) + Column (B)

Column (D): Schedules GTM 2, Lines 29 and 37

Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) NWWRTF ADJ #1	(C) Fuels & Power ADJ #3	(D) Bad Debt ADJ #4	(E) Water Testing ADJ #5	(F) Depreciation ADJ #6	(G) Property Taxes ADJ #7	(H) Income Taxes ADJ #8	(G) Regulatory Expense ADJ #6	(I) STAFF ADJUSTED
1	Sewer Revenues	\$ 5,660,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,660,389
2	Other Revenues	1,321	-	-	-	-	-	-	-	-	1,321
3	Other	-	-	-	-	-	-	-	-	-	-
4	Total Operating Revenues	\$ 5,661,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,661,710
5											
6											
7	Labor	\$ 766,759	\$ 17,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	784,346
8	Purchased Water	7,156	1,878	-	-	-	-	-	-	-	9,034
9	Fuel & Power	385,512	117,810	147,515	-	-	-	-	-	-	650,837
10	Chemicals	401,682	74,553	-	-	-	-	-	-	-	476,235
11	Waste Disposal	103,272	-	-	-	-	-	-	-	-	103,272
12	Management Fees	789,604	6,054	-	-	-	-	-	-	-	795,658
13	Group Insurance	267,064	54	-	-	-	-	-	-	-	267,118
14	Pensions	150,285	-	-	-	-	-	-	-	-	150,285
15	Regulatory Expense	43,784	-	-	-	-	-	-	-	(9,406)	34,388
16	Insurance Other Than Group	48,788	-	-	-	-	-	-	-	-	48,786
17	Customer Accounting	123,868	-	-	(55,609)	-	-	-	-	-	68,359
18	Rents	38,079	883	-	-	-	-	-	-	-	38,962
19	General Office Expense	49,950	393	-	-	-	-	-	-	-	50,343
20	Miscellaneous	243,174	8,000	-	-	13,196	-	-	-	-	264,370
21	Maintenance Expense	138,820	6,143	-	-	-	-	-	-	-	144,763
22	Depreciation & Amortization	1,238,799	-	-	-	-	111,301	-	-	-	1,350,100
23	General Taxes-Property Taxes	135,172	-	-	-	-	-	89	-	-	135,261
24	General Taxes-Other	58,909	-	-	-	-	-	-	-	-	58,909
25	Income Taxes	52,682	-	-	-	-	-	-	(174,035)	-	(121,353)
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											
36											
38											
39											
40											
41											
42	Total Operating Expenses	\$ 5,043,267	\$ 233,354	\$ 147,515	\$ (55,609)	\$ 13,196	\$ (111,301)	\$ 89	\$ (174,035)	\$ (9,406)	\$ 5,309,671
43	Operating Income (Loss)	\$ 618,443	\$ (233,354)	\$ (147,515)	\$ 55,609	\$ (13,196)	\$ (111,301)	\$ (89)	\$ 174,035	\$ 9,406	\$ 352,039

OPERATING INCOME ADJUSTMENT # 1 - NWWRTF OPERATING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]
1	Operating expenses	<u>\$ 1,232,282</u>	<u>\$ 233,354</u>	<u>\$ 1,465,635</u>	<u>Difference</u>
		Total Costs of NWWRTF	Company Proposed 68%	Staff Recommended 72%	Difference
2	Labor	\$ 439,680	\$ 298,982	\$ 316,570	\$ 17,587
3	Purchased Water	46,939	31,919	33,796	1,878
4	Fuel & Power (a)	373,211	253,783	371,593 (c)	117,810
5	Chemicals (a)	414,181	281,643	356,196	74,553
6	Waste Disposal	-	-	-	-
7	Management Fees	151,361	102,925	108,980	6,054
8	Group Insurance	1,351	919	973	54
9	Pensions	-	-	-	-
10	Regulatory Expense	-	-	-	-
11	Insurance Other Than Group	-	-	-	-
12	Customer Accounting	-	-	-	-
13	Rents	22,082	15,016	15,899	883
14	General Office Expense	9,819	6,677	7,070	393
15	Miscellaneous	199,988	135,992	143,991	8,000
16	Maintenance Expense	153,567	104,426	110,568	6,143
17	Depreciation & Amortization	1,176,113	(b)	(b)	(b)
18	General Taxes-Property Taxes	186,526	(b)	(b)	(b)
19	General Taxes-Other	-	-	-	-
20	Income Taxes	-	-	-	-
21					
22					
23		<u>\$ 3,174,818</u>	<u>\$ 1,232,282</u>	<u>\$ 1,465,635</u>	<u>\$ 233,354</u>
24					
25	(a) Variable cost allocation: Anthem Agua Fria (14%) and Sun City West (86%)				
26	(b) Depreciation and Property Taxes Separately Reviewed				
27	(c) Staff recommended for NWWRTF based on revised APS annualization: (\$432,085 * 14%)				
28		Current	Future		
29	<u>Cost Allocation</u>	<u>Capacity</u>	<u>Growth</u>		
30	Anthem Agua Fria	14%	28%		
31	Sun City West	86%	72%		

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OPERATING INCOME ADJUSTMENT # 2 - FUEL & POWER EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Fuel & Power - All Other	\$ 12,301	147,515	\$ 159,816
2	Total Company Proposed Fuel and Power	\$ 385,512		
3	Less: Company Proposed Fuel and Power - NWWRTF	\$ 373,211		
4	Company Proposed Fuel and Power - All Other			\$ 12,301
5				
6	Total Staff Recommended		\$ 531,409	
7	Total Staff NWWRTF	\$ 432,085		
8	Staff NWWRTF Allocation Factor	86%		
9	Less: Staff Recommended for NWWRTF		\$ 371,593	
10	Staff Recommended for All Other			\$ 159,816
11	Staff Adjustment - Fuel and Power - All Other			\$ 147,515

OPERATING INCOME ADJUSTMENT # 3 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Total Uncollectible Accounts	\$ 1,152,299		
2	Uncollectible Accounts- Miscellaneous Invoices	\$ (361,154)		
3	Net Used in Company calculation	\$ 791,145		
4	Allocation Percentage-	7.23%		
5	Bad Debts included in Cust. Accounting	\$ 57,211		
6				
7	Staff Adjusted Test Year Revenue			\$ 5,661,710
8	3 year average Bad Debt Exp. Rate, Per Co.			0.03%
9	Staff Recommended Bad Debt Exp			\$ 1,602
10				
11	Adjustment		\$ (55,609)	

References:

Column [A], Company Workpapers  
Column [B]: Col. [C], line 9, less Col [A], line 5  
and Testimony GTM.  
Column (C): Line 8, Per Company's Workpapers  
Column (C): Line 9 Staff's recommended Bad  
Debt Expense, based on 3-year average  
loss history times Staff Recommended Revenues

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Schedule GTM-15

OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING

LINE ACCT			[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
<u>NO.</u>	<u>NO.</u>	<u>DESCRIPTION</u>			
1		Miscellaneous	\$ -	\$ 13,196	\$ 13,196

References:

Column (A), Company Schedule C-2 p. 26  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 5- DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation & Amortization	\$ 1,238,799	\$ 111,301	\$ 1,350,100

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
2		<u>PLANT IN SERVICE:</u>	B-2 page 2		
3	351000	WWWOrganization	4,078	0.00%	-
4	352000	WW Franchises	68	0.00%	-
5	353200	WW Land & Ld Rights Coll	-	0.00%	-
6	354200	WW Struct & Imp Coll	130,873	5.00%	6,544
7	354500	WW Struct & Imp Gen	48,870	1.67%	816
8	355300	WW Power Gen Equip SPP	25,840	3.33%	860
9	355400	WW Power Gen Equip TDP	-	0.00%	-
10	360000	WW Collection Sewers Forced	765,181	2.07%	15,839
11	361100	WW Collecting Mains	13,101,343	2.04%	267,267
12	362000	WW Special Coll Struct	963,907	8.40%	80,968
13	363000	WW Service Sewer	2,641,009	2.04%	53,877
14	364000	WW Flow Measuring Devices	-	10.00%	-
15	371100	WW Pump Equip Elect	27,605	10.00%	2,761
16	380050	WW TD Equip Grit Removal	-	5.00%	-
17	380100	WW TD Equip Sed Tanks/Acc	7,615	5.00%	381
18	380600	WW TD Eauip Oth Disp	5,634	5.00%	282
19	380625	WW TD Eauip Gen Tmt	110,053	5.00%	5,503
20	380650	WW TD Equip Influent Lift S	19,530	5.00%	977
21	382000	WW Outfall Sewer Lines	-	5.00%	-
22	389100	WW Oth Plt & Misc Equip Int	-	4.98%	-
23	389600	WW Oth Plt & Misc Equip	-	4.98%	-
24	390000	WW Office Furniture & Equip	-	4.50%	-
25	391000	WW Trans Equipment	-	20.00%	-
26	393000	WW Tool Shop & Garage Equip	-	4.47%	-
27	395000	WW Power Operated Equip	777	5.02%	39
28	396000	WW Communication Equip	12,621	10.30%	1,300
29	397000	WW Misc Equipment	22,663	5.10%	1,156
30	398000	WW Other Tangible Equipment	-	0.00%	-
31					
32		Allocated From Corp to Districts (SLM-2)	B-2 page 6		
33	303600	Land & Land Rights AG	-	0.00%	-
34	304510	Struct & Imp AG Cap Lease	-	0.00%	-
35	304600	Struct & Imp Offices	-	1.67%	-
36	304800	Struct & Imp Misc	-	1.67%	-
37	304620	Struct & Imp Leasehold	18,874	4.63%	874
38	3310001	Mains	-	1.53%	-
39	339600	Other P/E CPS	4,930	3.30%	163
40	340100	Office Furniture & Equip	110,050	4.04%	4,446
41	340200	Comp & Periph Equip	47,801	10.00%	4,780
42	340300	Computer Software	173,566	25.00%	43,392
43	340330	Computer Software Other	4,463	25.00%	1,116
44	340500	Other Office Equipment	-	0.00%	-
45	341100	Trans Equip Lt Duty Trucks	-	20.00%	-
46	343000	Tool Shop & Garage Equip	-	4.47%	-
47	344000	Laboratory Equipment	-	0.00%	-
48	345000	Power Operated Equipment	-	5.20%	-
49	346100	Comm Equip Non-Telephone	17,760	0.00%	-
50	346200	Communication Equip Telephone	1,369	10.30%	141
51	346300	Communication Equip Other	468	0.00%	-
52	347000	Misc Equipment	-	0.00%	-
53	380400	WW TD Equip Aux Eff Tmt	-	5.00%	-
54	393000	WW Tool Shop & Garage Equip	-	4.74%	-
55					
56		North West Valley Treat Plant (NWWRTF)	B-2 p 9	B-2 page 9	
57	352000	WW Franchises	939	0.00%	-
58	353200	WW Land & Ld Rights Coll	326,026	0.00%	-
59	353500	WW Land & Ld Rights Gen	14,938	0.00%	-
60	354200	WW Struct & Imp Coll	1,981,709	5.00%	99,085
61	354300	WW Struct & Imp SPP	697,148	5.00%	34,857
62	354400	WW Struct & Imp TDP	-	0.00%	-
63	354500	WW Struct & Imp Gen	1,150,761	1.67%	19,218

64	355200	WW Power Gen Equip Col	5,725	3.33%	191
65	355300	WW Power Gen Equip SPP	-	3.33%	-
66	360000	WW Collection Sewers Forced	-	2.07%	-
67	361100	WW Collecting Mains	79,052	2.04%	1,613
68	362000	WW Special Coll Struct	372,845	8.40%	31,319
69	363000	WW Service Sewer	18,642	2.04%	380
70	364000	WW Flow Measuring Devices	3,959	10.00%	396
71	370000	WW Receiving Wells	-	3.33%	-
72	371100	WW Pump Equip Elect	291,311	10.00%	29,131
73	371200	WW Pump Equip Other	267	5.42%	14
74	380000	WW TD Equipment	1,516,424	5.00%	75,821
75	380050	WW TD Equip Grit Removal	793,756	5.00%	39,688
76	380100	WW TD Equip Sed Tanks/Acc	3,865,304	5.00%	193,265
77	380200	WW TD Equip Sludge/Effl Rmv	37,642	5.00%	1,882
78	380250	WW TD Equip Sludge Dlg Tnk	51,518	5.00%	2,576
79	380300	WW TD Equip Sludge Dry/Fitt	4,342,083	5.00%	217,104
80	380350	WW TD Equip Sec Trmt Fitt	18,407	5.00%	920
81	380400	WW TD Equip Aux Effl Trmt	924,411	5.00%	46,221
82	380500	WW TD Equip Chem Trmt Plant	1,460	5.00%	73
83	380600	WW TD Equip Oth Disp	748,523	5.00%	37,426
84	380625	WW TD Equip Gen Trmt	570,206	5.00%	28,510
85	380650	WW TD Equip Influent Lift S	51,852	5.00%	2,593
86	381000	WW Plant Sewers	11,815	5.00%	591
87	382000	WW Outfall Sewer Lines	84,528	5.00%	4,226
88	389100	WW Oth Plt & Misc Equip Int	13,943	4.98%	694
89	389600	WW Oth Plt & Misc Equip	-	0.00%	-
90	390000	WW Office Furniture & Equip	121,007	4.59%	5,554
91	390200	WW Computer & Peripherals	14,510	25.00%	3,628
92	390300	WW Computer Software	45,342	25.00%	11,336
93	391000	WW Trans Equip	172,443	20.00%	34,489
94	392000	WW Stores Equip	8,114	3.91%	317
95	393000	WW Tool Shop & Garage Equip	89,445	4.74%	4,240
96	394000	WW Laboratory Equipment	71,064	10.00%	7,106
97	395000	WW Power Operated Equipment	9,327	5.02%	468
98	396000	WW Comm Equip	159,983	10.30%	16,478
99	397000	WW Misc Equip	50,390	5.10%	2,570
100	398000	WW Other Tangible Plant	-	0.00%	-
101		Rounding	(4)		
102					
103					
104		Total Plant in Service	36,983,761	3.91%	1,447,460
105					
106					
107		Less Non Depreciable Plant			
108	351000	WWWOrganization	4,078	0.00%	-
109	353200	WW Land & Ld Rights Coll	-	0.00%	-
110	355300	WW Power Gen Equip SPP	25,840	0.00%	-
	352000	WW Franchises	939	0.00%	-
	353200	WW Land & Ld Rights Coll	326,026	0.00%	-
	353500	WW Land & Ld Rights Gen	14,938	0.00%	-
111					
112		Net Depreciable Plant and Depreciation Amounts	\$ 36,611,940		\$ 1,447,460
113		Composite Depreciation Rate		3.95%	
114		Less			
115		Amortization of Regulatory CIAC at Settlement Rate			97,158
116		Amortization of CIAC at Composite Rate	\$ 5,122		\$ 202
117		Staff Recommended Depreciation Expense			\$ 1,350,100
118		Company Proposed Depreciation Expense			1,238,799
119		Staff Adjustment			\$ 111,301

References:	
Col A	Schedule GTM-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

OPERATING INCOME ADJUSTMENT # 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 5,661,710	\$ 5,661,710
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	11,323,420	11,323,420
4	Staff Adjusted Test Year Revenues - 2008	5,661,710	
5	Staff Recommended Revenue		7,231,901
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	16,985,130	18,555,321
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	5,661,710	6,185,107
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	11,323,420	12,370,214
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	11,336,874	12,383,668
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	2,494,112	2,724,407
16	Composite Property Tax Rate - Obtained from ADOR	5.42%	5.42%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 135,261	
18	Company Proposed Property Tax	\$ 135,172	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 89	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 147,750
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 135,261
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 12,489
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 12,489
24	Increase in Revenue Requirement		\$ 1,570,191
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		0.79540%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 24  
Line 21: Line 19 - Line 20  
Line 23: Schedule GTM-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-18

OPERATING INCOME ADJUSTMENT # 7 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	\$ 52,682	\$ (174,035)	\$ (121,353)

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Schedule GTM-19

OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	\$ 43,794	\$ (9,406)	\$ 34,388

References:

Column (A), Company Schedule C-2, p. 16  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN IT'S )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM )  
WATER DISTRICT AND ITS SUN CITY )  
WATER DISTRICT. )

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN IT'S )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM/ )  
AGUA FRIA WASTEWATER DISTRICT, )  
IT'S SUN CITY WASTEWATER DISTRICT, AND )  
IT'S SUN CITY WEST WASTEWATER DISTRICT)

DOCKET NO. SW-01303A-09-0343

SURREBUTAL TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 15, 2010

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**EXECUTIVE SUMMARY**  
**ARIZONA AMERICAN WATER COMPANY, INC.**  
**DOCKET NOS. W-01303A-09-0343 AND SW-01303A-09-0343**

The surrebuttal testimony of Staff witness Mr. Gary T. McMurry addresses rate base, operating income, and the revenue requirement for the Anthem Agua Fria, Sun City, and Sun City West wastewater districts. Staff witness Gerald Becker addresses these issues for the Anthem and Sun City water districts.

Anthem Agua Fria Wastewater - Staff's revenue requirement of \$13,686,519 represents an increase of \$5,049,396, or 58.46 percent, for a 7.20 percent rate of return on a Staff-adjusted OCRB of \$45,116,389. Staff's surrebuttal revenue requirement represents a \$41,290 increase from its direct testimony.

Sun City Wastewater - Staff's revenue requirement of \$7,558,955 represents an increase of \$1,618,574 or 27.25 percent, for a 7.20 percent rate of return on a Staff-adjusted OCRB of \$14,584,558. Staff's surrebuttal revenue requirement represents a \$2,097 increase from its direct testimony.

Sun City West Wastewater - Staff's revenue requirement of \$7,127,382 represents an increase of \$1,465,672, or 25.89 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$18,097,843. Staff's surrebuttal revenue requirement represents a \$104,519 decrease from its direct testimony.

The Company's rebuttal testimony accepted many of Staff's direct adjustments and suggested a number of additional corrections including adoption of adjustments proposed by the Residential Utility Consumer Office ("RUCO"). Staff's surrebuttal recommendation is updated to reflect most of these additional suggestions. Outstanding differences remain between the Company and Staff on rate case issues addressed by Mr. McMurry's testimony in regard to cash working capital - lag-days for management fees, bad debt expense and depreciation expense. In addition, Mr. McMurry addresses Staff's opposition to the Company's proposal to defer the Sun City Wastewater district's proportionate share of certain replacement costs related to the 99<sup>th</sup> Avenue Interceptor project.

Response to the Rebuttal Testimony of Linda J. Gutowski

Cash Working Capital - Staff disagrees with the Company's rebuttal proposal to adjust lag days for payments to its affiliate at the date the affiliate requires payment. The affiliate controls the payment date and the Company payment date does not reflect the time that the affiliate must pay for the services provided. Accordingly, the proposed lag-days to the management fees are inconsistent with a properly-conducted lead-lag study. In the absence of the underlying data to determine the timing of when the affiliate pays its costs, Staff recommends eliminating the management fees from the cash working capital analysis.

Bad Debt Expense – Staff and the Company continue to disagree on the method for determining a normalized amount of bad debt expense for each of the three wastewater districts. Staff has revised its method to include normalization of uncollectibles related to miscellaneous invoices. The Company's rebuttal position is erroneous because its normalization method ignores that the actual test year recorded amount includes not only write-offs but also an accrual provision. The Company's rebuttal amount also includes mathematical errors due use of incorrect signs of netted amounts.

Depreciation Expense – Staff and the Company continue to disagree on the depreciation rates for two plant accounts in the Anthem/Agua Fria Wastewater District. Staff has corrected errors in several other accounts in the remaining districts, mostly involving corporate allocated assets.

Response to the Rebuttal Testimony of Miles H. Kiger

In its rebuttal testimony, the Company introduces a new request for authorization to defer the Sun City Wastewater District's proportionate share of replacement costs associated with the 99<sup>th</sup> Avenue Interceptor project pursuant to an agreement with the City of Glendale for consideration of recovery in a future rate case. Although the agreement was executed in 1985, the Company only recently received its first actual billing under the agreement and a billing estimate for 2010. The Company implies that it has not made payment as it is awaiting authorization to defer the costs, and it is discussing the amount invoiced with the City of Glendale. Rebuttal testimony is not the appropriate time or vehicle to propose this kind of special accounting treatment. Presenting a new request in rebuttal testimony does not provide Staff sufficient time to analyze the request. In the event that the Commission ultimately would find that the Company's request for deferral is appropriate, it need only grant the request before the Company closes its books for the year ended December 31, 2010, for the Company to defer payments made in 2010, it is not necessary for the Company to obtain deferral authorization prior making payment. Accordingly, Staff recommends that the Company submit its deferral request in a separate docket; otherwise, Staff recommends denial. However, Staff intends to pursue discovery and question witnesses at hearing to assess whether an alternate recommendation is warranted.

1     **I.     INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is Gary T McMurry. I am a Public Utilities Analyst employed by the Arizona  
4           Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").  
5           My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Are you the same Gary T McMurry who previously filed direct testimony on the rate**  
8           **base and operating income in this proceeding?**

9     A.     Yes.

10  
11    **II.    PURPOSE OF TESTIMONY**

12    **Q.     What is the purpose of your testimony in this case?**

13    A.     My surrebuttal testimony addresses issues raised in Arizona-American Water Company  
14           ("AAWC" or "Company") rebuttal testimony regarding Staff's recommendations  
15           regarding rate base, operating income and revenue requirement for the Anthem Agua Fria,  
16           Sun City, and Sun City West wastewater districts. My testimony also addresses the  
17           Company's request for authorization to defer the Sun City Wastewater District's  
18           proportionate share of replacement costs associated with the 99<sup>th</sup> Avenue Interceptor  
19           project pursuant to an agreement with the City of Glendale for consideration of recovery  
20           in a future rate case.

21  
22    **Q.     How is your testimony organized?**

23    A.     My testimony is presented in four sections. Section I is the introduction. Section II  
24           provides the purpose for my testimony. Section III presents my responses to the rebuttal  
25           testimony provided by Linda J. Gutowski. Section IV presents my response to the rebuttal  
26           testimony provided by Miles H Kiger.

1     **Q.     Have you prepared any schedules to accompany your testimony?**

2     A.     Yes. I prepared surrebuttal schedules GTM-1 to GTM-20. The surrebuttal schedules  
3           reflect the Company's application as filed, not its rebuttal position.  
4

5     **III.   SUMMARY OF RECOMMENDATIONS**

6     **Q.     Please provide a summary of Staff surrebuttal recommendations.**

7     A.     For Anthem Agua Fria Wastewater, Staff recommends a revenue requirement of  
8           \$13,686,519, a 58.46 percent increase over test year revenues of \$8,637,123. For Sun City  
9           Wastewater, Staff recommends a revenue requirement of \$7,558,955, a 27.25 percent  
10          increase over test year revenues of \$5,940,381. For Sun City West Wastewater, Staff  
11          recommends a revenue requirement of \$7,127,382, a 25.89 percent increase over test year  
12          revenues of \$5,561,710. For Anthem Agua Fria Wastewater, Staff recommends a rate  
13          base of \$45,116,389, a \$2,619,343 reduction from the Company's proposed rate base. For  
14          Sun City Wastewater, Staff recommends a rate base of \$14,584,558, a \$179,529 reduction  
15          from the Company's proposed rate base. For Sun City West Wastewater, Staff  
16          recommends a rate base of \$18,097,843, a \$276,504 increase from the Company's  
17          proposed rate base. For Anthem Agua Fria Wastewater, Staff's adjusted test year  
18          operating income is \$199,477, a \$391,262 increase over that proposed by the Company.  
19          For Sun City Wastewater, Staff's adjusted test year operating income is \$65,463, a  
20          \$117,057 increase from that proposed by the Company. For Sun City West Wastewater,  
21          Staff's adjusted test year operating income is \$410,534, a \$207,909 decrease from that  
22          proposed by the Company.

IV. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF LINDA J  
GUTOWSKI

*Anthem Agua Fria, Sun City, and Sun City West Wastewater Districts:*

*Cash Working Capital Calculation: Lead Days for Management Expenses*

Q. When Staff filed its Direct Testimony, did Staff make any adjustment to the Company's lag days for Management Expenses in its calculation of cash working capital?

A. No.

Q. Please explain.

A. In its filing, the Company used 14.77 lag days for Management Expenses. Based on the expenses intended to be covered by Management Expenses, Staff recommended that 14.77 lag days would be a reasonable number of lag days for this item.

Q. Did the Company change its position in its Rebuttal Testimony?

A. Yes. The Company now claims a *lead* of 11.25 days for Management Expenses.

Q. What are the reasons that the Company changed its number of lead/lag days for Management Expenses?

A. The Company uses a shared services model for certain items, and based on the agreement between the Company and its affiliate, the Company pays for certain expenses one month in advance.

1 **Q. Does the Company offer other reasons to support its lead days for Management**  
2 **Expenses?**

3 A. Yes. The Company states that the calculation "is the same kind of lead days used in the  
4 2008 Working Capital calculation that was approved as part of Decision 71410."<sup>1</sup>  
5

6 **Q. Does Staff agree with these reasons?**

7 A. No.  
8

9 **Q. Please explain.**

10 A. Staff does not believe that lead/lag days should be based on internal agreements made  
11 between the Company and its parent or other affiliate. Instead, lead/lag days should be  
12 calculated on the best assessment of an entity's actual experience regarding the transfer of  
13 cash. Further, the use of an internal agreement to calculate lead/lag days may result in a  
14 situation where an unregulated affiliate may expect payments even sooner than one month  
15 in advance, and expect the ratepayers to support this internal circumstance in its cash  
16 working capital calculation.  
17

18 **Q. Does Staff have any comment regarding the use of the lead/lag days approved in**  
19 **Decision No. 71410? Please explain.**

20 A. Staff reviewed Decision No. 71410 and notes that this decision does not approve a lead of  
21 11.25 days for Management Expenses. Instead, this decision approves a lead of 3.88 days  
22 for Management Expenses.

---

<sup>1</sup> Rebuttal Testimony of Linda J. Gutowski, page 11 of 21, lines 6-7.

1     **Q.     What does Staff recommend?**

2     A.     Staff recommends that the effect(s) of Management Expenses be removed from the  
3           computation of cash working capital. Staff disagrees with the lead of 3.88 days approved  
4           in Decision No. 71410 because it was not based upon a lead/lag study of the affiliate and  
5           reflects the prepayment of the following month's expenses. In the absence of a lead/lag  
6           study to determine the payment pattern by the affiliated service provider, Staff has revised  
7           its computation of cash working capital to exclude the effects of the 14.77 lag days for  
8           Management Expenses as originally requested by the Company, as shown in Anthem  
9           Agua Fria Wastewater Surrebuttal Schedule GTM-7, Sun City Wastewater Surrebuttal  
10          Schedule GTM-6 and Sun City West Wastewater Surrebuttal Schedule GTM-6

11  
12     *Bad Debt Expense- Anthem Agua Fria, Sun City, and Sun City Wastewater districts*

13     **Q.     Please describe the similarities and differences between the Company's rebuttal**  
14           **position and Staff's position in this testimony.**

15     A.     Although both the Company and Staff agree that Bad Debt Expense should be normalized  
16           based on the Company's three-year experience, the Company and Staff are unable to agree  
17           on the actual amount of Bad Debt Expense that was included in the Company's original  
18           application. This difference, in turn, results in different adjustments to Bad Debt Expense  
19           for both systems.

20  
21     **Q.     Please explain the reasons that there is disagreement of the amount of Bad Debt**  
22           **Expense included in the Company's application?**

23     A.     First, the Company's application incorporates Bad Debt Expense into the Company's total  
24           Customer Accounting Expense, so the Bad Debt Expense itself is not readily discernible  
25           from the schedules filed with the application. One must review the supporting  
26           documentation to determine the amount of Bad Debt Expense included in the Customer

1 Accounting Expense. Secondly, the Company's application as filed reflects the use of a  
2 four-factor allocation applied to both the actual write-offs and an accrued provision,  
3 instead of using each district's respective loss history.  
4

5 **Q. What is reflected in the Company's rebuttal testimony for this amount?**

6 A. The Company calculates the Bad Debt Expense included in the Customer Accounting  
7 Expense based on net write-off's without giving consideration to the accrued provision.  
8

9 **Q. Does Staff agree with the Company's position?**

10 A. No.  
11

12 **Q. Please explain.**

13 A. The Company's use of the write-off amount only does not yield the amount of expenses  
14 included in the Company's test year results because the test year results also include an  
15 accrued provision for on-going bad debts. In order to determine the correct adjustment,  
16 Staff compared the amount of bad debt expense reflected in the Company-proposed test  
17 year to the normalized expense based on the Company's three-year history of write-offs.  
18

19 **Q. Please provide Staff's calculation of the amount of Bad Debt Expense included in test**  
20 **year expenses.**

21 A. Yes, please see GTM-13.1 for Sun City or GTM-14.1 for Anthem Agua Fria and Sun City  
22 West. This schedule illustrates the composition of the Company's Customer Accounting  
23 Expense by line item including Bad Debt Expenses ("Uncollectibles" and Uncollectibles-  
24 MI (Miscellaneous Invoices)). As indicated, Customer Accounting Expenses are mostly  
25 comprised of allocations from a shared services center, plus a minor amount recorded  
26 locally at each system. Staff recalculated the allocated expense for each line item and then

1 added the amounts recorded directly by each system. The resulting figures reconcile to  
2 the Customer Accounting Expense for each system as reported in Schedule C-1 of the  
3 Company's application. Therefore, Staff concludes that the calculated amounts for Bad  
4 Debt Expense and the corresponding adjustments, as shown in Surrebuttal Schedule  
5 GTM-14 for Anthem Agua Fria Wastewater, Surrebuttal Schedule GTM-13 for Sun City  
6 Wastewater district, and Surrebuttal Schedule GTM-14 for Sun City West Wastewater  
7 district properly reflect the normalized test year expenses for the respective districts.  
8

9 **Q. Has Staff's amount changed since Staff filed its Direct Testimony?**

10 A. Yes.  
11

12 **Q. Please explain.**

13 A. Staff's calculation changed for two reasons. First, Staff made some minor corrections to  
14 the allocation percentages used to recalculate Bad Debt Expense. Second, Staff applied  
15 the restated percentages to Uncollectible Accounts only and did not include the  
16 Uncollectible Accounts-MI (Miscellaneous Invoices) as was done as part of Staff's Direct  
17 Testimony. The second change, exclusion of Uncollectible Accounts-MI (Miscellaneous  
18 Invoices), is to reflect the fact that the Uncollectible Accounts-MI (Miscellaneous  
19 Invoices) does not contain activity related to the uncollectible portion of the Company's  
20 retail sales. Rather, Uncollectible Accounts-MI (Miscellaneous Invoices) is used as a  
21 billing and collection clearing account for miscellaneous activity such as damage to  
22 company property, and it should not be considered in the calculation of uncollectible  
23 amounts associated with ordinary retail sales.

1 **Q. Does the Uncollectible Accounts-MI (Miscellaneous Invoices) warrant further**  
2 **adjustment? Please explain.**

3 A. Yes. The large credit balance in the Uncollectible Accounts-MI (Miscellaneous Invoices)  
4 represents collections of amounts billed in previous periods, and the large fluctuations in  
5 the account warrant normalization. A review of the Company work papers indicates the  
6 following activity for this account:

8	2006	\$341,820
9	2007	\$16,584
10	2008	<u>\$(361,154)</u>
11	3 year total	<u>\$(2,750)</u>
12	3 year average	\$(917)

13  
14 The three-year average as shown above is allocated to each district as shown in  
15 Surrebuttal Schedules GTM-14, GTM-13, and GTM-14 for Anthem Agua Fria, Sun City,  
16 and Sun City West wastewater, respectively, and these amounts offset the adjustment for  
17 Bad Debt Expense on ordinary activity.

18  
19 **Q. Does Staff have other comments?**

20 A. Yes. The Company's methodology is a departure from the two established methodologies  
21 for treating uncollectible accounts. The first method is the Direct Charge-Off method  
22 where uncollectibles and any associated, subsequent recoveries are recorded directly, or  
23 "charged-off," to Bad Debt Expense. The second method is the Allowance method where  
24 a company systematically records expense to Bad Debt Expense with an offset to an  
25 Allowance for Doubtful Accounts. Unlike the first method, under this method, the  
26 charge-off is then made to the Allowance for Doubtful Accounts rather than to Bad Debt

1 Expense. In the instant case, the Company has adopted a kind of hybrid method whereby  
2 its charge-offs, as well as its systematic provision for bad debts, are both reflected in the  
3 Bad Debt Expense of Customer Accounting Expense. This practice has created confusion  
4 regarding the reasons for and the amounts of Bad Debt Expense.

5  
6 **Q. What does Staff recommend?**

7 A. Staff recommends the adjustments to Customer Accounting Expense as shown in Anthem  
8 Agua Fria Surrebuttal Schedule GTM-14, Sun City Surrebuttal Schedule GTM-13, and  
9 Sun City Water Surrebuttal Schedule GTM-14.

10  
11 *Depreciation Rate Difference Account Numbers 380625 and 380650*

12 **Q. What does the Company propose with respect to depreciation rates for the Anthem**  
13 **Agua Fria district for accounts 380625 and 380650?**

14 A. The Company proposes 8.4 percent.

15  
16 **Q. What does Staff recommend for these assets?**

17 A. Staff continues to recommend 5 percent.

18  
19 **V. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF MILES H KIGER**

20 *Other Adjustments*

21 **Q. Is Staff adopting other adjustments reflected in the Company's Rebuttal Testimony?**

22 A. Yes. On Surrebuttal schedules GTM-11, Anthem Agua Fria adjustments 9 through 11 and  
23 Sun City adjustments 7 through 10, and Sun City West adjustments 7 through 9 Staff is  
24 reflecting its adoption of various RUCO adjustments discussed in the Company's Rebuttal  
25 Testimony. Since these items are explained in detail in the Company's Rebuttal  
26 Testimony, Staff is not providing duplicative or further explanation here.

1 *Accounting Order requested for the 99<sup>th</sup> Avenue Interceptor Project*

2 **Q. What does Mr. Kiger propose with respect to the City of Glendale Sewage**  
3 **Transportation Agreement?**

4 A. The Company is requesting an accounting order to defer its proportionate share  
5 (\$917,906) of the total costs associated with the 99<sup>th</sup> Avenue Interceptor Agreement, also  
6 known as the "Tie-Line".  
7

8 **Q. What does Staff recommend?**

9 A. Staff lacks sufficient information to make a recommendation in this proceeding. Because  
10 this request was only recently made and Staff has had little time to issue data requests, we  
11 must recommend denial at this time. Staff reserves the right to ask questions at the  
12 hearing to get more information and may reconsider its recommendation, if appropriate.  
13

14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes, it does.

**MAIN EXTENSION AGREEMENT ("MXA") CHECKLIST  
FOR ADMINISTRATIVE COMPLIANCE**

**R-14-2-406**

NAME OF COMPANY: Santa Cruz Water -Global

NAME OF APPLICATION AND/OR PROJECT: Desert Passage, Phase 2. Parcel 7/#002-007

**Agreement Date: July 25, 2006**

<b>R-14-2-406 CONTRACT REQUIREMENTS:</b>	<b>YES</b>	<b>NO</b>
1) Name and Address of Applicant	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2) Proposed Service Address?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3) Description of Requested Service	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4) Description and Map of Line Extension	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5) Itemized Cost Estimate to Include materials, Labor and Other Costs as Needed	<input checked="" type="checkbox"/>	<input type="checkbox"/>
6) Payment terms	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7) A Clear, Concise Statement of Refunding Provisions, If Applicable	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8) Utilities' Estimated Start and Completion Dates	<input checked="" type="checkbox"/>	<input type="checkbox"/>
9) Signatures From Both Parties	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10) Water Use Data Sheet	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11) DEQ Plan or Approval to Construct or ADEQ Waiver with ADEQ Compliance.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12) Confirm within CC&N	<input checked="" type="checkbox"/>	<input type="checkbox"/>
13) Approved Hook Up Fee	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Reviewed By: Vicki Wallace

Date: April 13, 2010

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

DIRECT TESTIMONY OF GARY T. MCMURRY

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GTM- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
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GTM- 13	OPERATING INCOME ADJUSTMENT # 2 - FUEL & POWER EXPENSE
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GTM- 19	OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE
GTM- 20	OPERATING INCOME ADJUSTMENT # 9 - ACCEPTING RUCO ADJUSTMENTS

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 47,735,732	\$ 47,735,732	\$ 45,116,389	\$ 45,116,389
2	Adjusted Operating Income (Loss)	\$ (191,785)	\$ (191,785)	\$ 199,477	\$ 199,477
3	Current Rate of Return (L2 / L1)	-0.40%	-0.40%	0.44%	0.44%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 4,071,858	\$ 4,071,858	\$ 3,248,380	\$ 3,248,380
6	Operating Income Deficiency (L5 - L2)	\$ 4,263,643	\$ 4,263,643	\$ 3,048,903	\$ 3,048,903
7	Gross Revenue Conversion Factor	1.6561	1.6561	1.6561	1.6561
8	Required Revenue Increase (L7 * L6)	\$ 7,060,837	\$ 7,060,837	<b>\$ 5,049,396</b>	<b>\$ 5,049,396</b>
9	Adjusted Test Year Revenue	\$ 8,637,123	\$ 8,637,123	\$ 8,637,123	\$ 8,637,123
10	Proposed Annual Revenue (L8 + L9)	\$ 15,697,960	\$ 15,697,960	\$ 13,686,519	\$ 13,686,519
11	Required Increase in Revenue (%)	81.75%	81.75%	58.46%	58.46%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column [A]: Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
----------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.3131%
3	Revenues (L1 - L2)	99.6869%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3053%
5	Subtotal (L3 - L4)	60.3815%
6	Revenue Conversion Factor (L1 / L5)	1.656135

Calculation of Uncollectible Factor:

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.5100%
11	Uncollectible Factor (L9 * L10)	0.3131%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-16, L24)	1.1505%
22	Effective Property Tax Factor (L20*L21)	0.7064%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	39.3053%

24	Required Operating Income (Schedule GTM-1, Line 5)	\$	3,248,380	
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$	199,477	
26	Required Increase in Operating Income (L24 - L25)	\$		3,048,903
27	Income Taxes on Recommended Revenue (Col. (D), L45)	\$	1,191,193	
28	Income Taxes on Test Year Revenue (Col. (A), L45)	\$	(725,454)	
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$		1,916,647
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$	5,049,396	
31	Uncollectible Rate (Line 10)		0.5100%	
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)	\$		25,752
33	Property Tax with Recommended Revenue (GTM-17, Col B, L20)	\$	356,444	
34	Property Tax on Test Year Revenue (GTM-17, Col A, L17)	\$	298,349	
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)	\$		58,095
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)	\$		5,049,397

Calculation of Income Tax:

37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L10)	\$	8,637,123
38	Operating Expenses Excluding Income Taxes	\$	9,163,100
39	Synchronized Interest (L54)	\$	1,353,492
40	Arizona Taxable Income (L37 - L38 - L39)	\$	(1,879,469)
41	Arizona State Income Tax Rate		6.9680%
42	Arizona Income Tax (L40 x L41)	\$	(130,961)
43	Federal Taxable Income (L40 - L42)	\$	(1,748,507)
44	Total Federal Income Tax	\$	(594,493)
45	Combined Federal and State Income Tax (L42 + L44)	\$	(725,454)

46 Effective Tax Rate

34.0000%

Calculation of Interest Synchronization:

47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	
48	Weighted Average Cost of Debt	
49	Synchronized Interest (L47 X L48)	

Anthem AF
\$ 45,116,389
3.0000%
\$ 1,353,492

(A)
Test Year
Anthem
Agua Fria
\$ 8,637,123
\$ 9,163,100
\$ 1,353,492
\$ (1,879,469)
6.9680%
\$ (130,961)
\$ (1,748,507)
\$ (594,493)
\$ (725,454)

(D)
Staff Recommended
Anthem
Agua Fria
\$ 13,686,519
\$ 9,246,947
\$ 1,353,492
\$ 3,086,082
6.9680%
\$ 215,038
\$ 2,871,043
\$ 976,155
\$ 1,191,193

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 131,361,186	\$ 128,482,726
2	Less: Accumulated Depreciation	22,837,366	22,207,122
3	Net Plant in Service	<u>\$ 108,523,820</u>	<u>\$ 106,275,604</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 14,883,541	\$ 14,949,031
5	Less: Accumulated Amortization	1,054,390	1,054,390
6	Net CIAC	<u>13,829,151</u>	<u>13,894,641</u>
7	Advances in Aid of Construction (AIAC)	48,273,364	48,273,364
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	143,475	143,475
10	Accumulated Deferred Income Tax Credits Customer Meter Deposits	-	-
<u>ADD:</u>			
11	Cash Working Capital	285,666	7,113
12	Accumulated Deferred Income Tax Debits	1,049,621	1,022,537
13	Supplies Inventory	2,495	2,495
14	Prepayments	44,740	44,740
15	Deferred Debits	75,382	75,382
16	Purchase Wastewater Treatment Charges	-	-
	Rounding	(2)	(2)
17	<b>Original Cost Rate Base</b>	<u>\$ 47,735,732</u>	<u>\$ 45,116,389</u>

References:

Column (A), Company Schedule B-2  
Column (B): Schedule GTM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] NWVRTF ADJ #1	[C] Verrado ADJ #2	[D] Cash Working ADJ #3	[E] Deferred Inc. Taxes ADJ #4	[E] CIAC in CWIP ADJ #5	[F] Accum Depr ADJ #6	[G] Generator Trnsfr ADJ #7	[H] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>											
1	304100	Struct & Imp SS	11,726								\$ 11,726
2	304200	Struct & Imp P	-								-
3	304510	Struct & Imp AG Capital Lease	-								-
4	304800	Struct & Imp Offices	-								-
5	304620	Struct & Imp Leasehold	-								-
6	304800	Struct & Imp Misc	-								-
7	307000	Wells & Springs	-								-
8	340100	Office Furniture & Equip	-								-
9	304200	Computer & Periph Equip	25,424								25,424
10	340300	Computer Software	-								-
11	340330	Comp Software Other	-								-
12	340500	Other Office Equip	-								-
13	341100	Trans Equip Lt Duty Trucks	-								-
14	341200	Trans Equip Hvy Duty Trucks	60,471								60,471
15	341400	Trans Equip Other	8,352								8,352
16	343000	Tools, Shop, Garage Equip	29,267								29,267
17	344000	Laboratory Equipment	-								-
18	346100	Comm Equip Non-Telephone	-								-
19	346200	Comm Equip Telephone	-								-
20	346300	Comm Equip Other	-								-
21	346700	Misc Equipment	-								-
22	351000	WWV Organization	-								-
23	352000	WW Franchises	495,058								495,058
24	353200	WW Land & Ld Rights Coll	353,370								353,370
25	353500	WW Land & Ld Rights Gen	143,036								143,036
26	354200	WW Struct & Imp Coll	2,047,885								2,047,885
27	354400	WW Struct & Imp TDP	6,607,035		(547,937)					(487,000)	5,572,098
28	354500	WW Struct & Imp Gen	10,622,274								10,622,274
29	355500	WW Pwr Gen Equip RWTP	136,851							487,000	623,851
30	360000	WW Collection Sewers Forced	2,729,254								2,729,254
31	361100	WW Collecting Mains	46,641,273								46,641,273
32	362000	WW Special Coll Struct	181,571								181,571
33	363000	WW Service Sewer	6,195,971								6,195,971
34	364000	WW Flow Measuring Devices	490,498								490,498
35	370000	WW Receiveing Wells	3,062,054								3,062,054
36	371100	WW Pump Equip Elect	2,323,742		(158,136)						2,165,606
37	371200	WW Pump Equip Other Pwr	6,216								6,216
38	380000	WW TD Equip	2,839,300		(1,132,564)						1,706,736
39	380050	WW TD Equip Grit Removal	10,086,969								10,086,969
40	380100	WW TD Equip Sed Tanks/Acc	3,865,949								3,865,949
41	380200	WW TD Equip Sludge/Eff Rmv	3,041								3,041
42	380250	WW TD Equip Sludge Dig Tank	2,572,930								2,572,930
43	380300	WW TD Equip Sludge Dry Filter	11,848,060								11,848,060
44	380400	WW TD Equip Aux Effl Trmt	772,399								772,399
45	380500	WW TD Equip Chem Trmt Plt	1,113,216								1,113,216
46	380600	WW TD Equip Oth Disp	845,799								845,799
47	380625	WW TD Equip Gen Trmt	143,294								143,294
48	380650	WW TD Equip Influent Lift S	18,743								18,743
49	381000	WW Plant Sewers	657,626								657,626
50	382000	WW Outfall Sewer Lines	724,631								724,631
51	389100	WW Oth Plt & Misc Equip Int	1,024,024								1,024,024
52	389600	WW Oth Plt & Misc Equip	-								-
53	390000	WW Office Furniture & Equip	31,682								31,682
54	391000	WW Trans Equipment	-								-
55	392000	WW Stores Equipment	-								-
56	393000	WW Tool Shop & Garage Equip	16,453								16,453
57	394000	WW Laboratory Equipment	48,048								48,048
58	395000	WW Power Operated Equip	1,028,920								1,028,920
59	396000	WW Communication Equip	2,134,843								2,134,843
60	397000	WW Misc Equipment	-								-
61	398000	WW Other Tangible Equipment	169,085								169,085
62	<u>Allocated From Corp to Districts (SLM-2)</u>										
64	303600	Land & Land Rights AG	\$ -							\$ -	-
65	304510	Struct & Imp AG Cap Lease	-								-
66	304600	Struct & Imp Offices	-								-
67	304800	Struct & Imp Misc	-								-
68	304620	Struct & Imp Leasehold	15,936								15,936
69	3310001	Mains	-								-
70	339600	Other P/E CPS	4,162								4,162
71	340100	Office Furniture & Equip	92,919								92,919
72	340200	Comp & Periph Equip	40,360								40,360
73	340300	Computer Software	146,548								146,548
74	340330	Computer Software Other	3,768								3,768
75	340500	Other Office Equipment	-								-
76	341100	Trans Equip Lt Duty Trucks	-								-
77	343000	Tool Shop & Garage Equip	-								-
78	344000	Laboratory Equipment	-								-
79	345000	Power Operated Equipment	-								-
80	346100	Comm Equip Non-Telephone	14,995								14,995
81	346200	Communication Equip Telephone	1,156								1,156
82	346300	Communication Equip Other	395								395
83	347000	Misc Equipment	-								-
84	380400	WW TD Equip Aux Effl Trmt	-								-
85	393000	WW Tool Shop & Garage Equip	-								-

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] NWVTRF ADJ #1	[C] Verrado ADJ #2	[D] Cash Working ADJ #3	[E] Deferred Inc. Taxes ADJ #4	[E] CIAC in CWIP ADJ #5	[F] Accum Depr ADJ #6	[G] Generator Trnsfr ADJ #7	[H] STAFF ADJUSTED
87		Allocation of 32 % of NWVTP (LJG-3)									
88	352000	WW Franchises	417	(52)							365
89	353200	WW Land & Ld Rights Coll	144,900	(18,113)							126,788
90	353500	WW Land & Ld Rights Gen	6,639	(830)							5,809
91	354200	WW Struct & Imp Coll	880,759	(110,095)							770,664
92	354300	WW Struct & Imp SPP	309,844	(38,731)							271,114
93	355400	WW Struct & Imp TDP	-	-							-
94	354500	WW Struct & Imp Gen	511,449	(63,931)							447,518
95	355200	WW Pwr Gen Equip Coll	2,545	(318)							2,227
96	355300	WW Pwr Gen Equip SPP	-	-							-
97	360000	WW Collection Sewers Forced	-	-							-
98	361100	WW Collecting Mains	35,134	(4,392)							30,742
99	362000	WW Special Coll Struct	165,708	(20,714)							144,995
100	363000	WW Services Sewer	8,285	(1,036)							7,249
101	364000	WW Flow Measuring Devices	1,760	(220)							1,540
102	370000	WW Receiving Wells	-	-							-
103	371100	WW Pump Equip Elect	129,472	(16,184)							113,288
104	371200	WW Pump Equip Other Pwr	118	(15)							103
105	380000	WW TD Equipment	673,966	(84,246)							589,720
106	380050	WW TD Equip Grit Removal	352,780	(44,097)							308,683
107	380100	WW TD Equip Sed Tanks/Acc	1,717,913	(214,739)							1,503,174
108	380200	WW TD Equip Sldge/Eff Rmv	16,730	(2,091)							14,639
109	380250	WW TD Equip SldgeDig Trnk	22,897	(2,862)							20,035
110	380300	WW TD Equip Sldge Dry/Fit	1,929,814	(241,227)							1,688,587
111	380350	WW TD Equip Sec Trmt Filtr	8,181	(1,023)							7,158
112	380400	WW TD Equip Aux Effl Trmt	410,850	(51,356)							359,494
113	380500	WW TD Equip Chem Trmt Plnt	649	(81)							568
114	380600	WW TD Equip Other Disp	332,677	(41,585)							291,092
115	380625	WW TD Equip Gen Trmt	253,425	(31,678)							221,747
116	380650	WW TD Equip Influent Lift S	23,045	(2,881)							20,164
117	381000	WW Plant Sewers	5,251	(656)							4,595
118	382000	WW Outfall Sewer Lines	37,568	(4,696)							32,872
119	389100	WW Oth Plnt & Misc Equip Int	6,197	(775)							5,422
120	389600	WW Oth Plnt & Misc Equip	-	-							-
121	390000	WW Office Furniture & Equip	53,781	(6,723)							47,058
122	390200	WW Computers & Peripheral	6,449	(806)							5,643
123	390300	WW Computer Software	20,152	(2,519)							17,633
124	391000	WW Trans Equipment	76,641	(9,580)							67,061
125	392000	WW Stores Equipment	3,606	(451)							3,155
126	393000	WW Tool Shop & Garage Equip	39,753	(4,969)							34,784
127	394000	WW Laboratory Equip	31,584	(3,948)							27,636
128	395000	WW Power Operated Equip	4,145	(518)							3,627
129	396000	WW Communication Equip	71,104	(8,888)							62,216
130	397000	WW Misc Equipment	22,396	(2,800)							19,597
131											
132		Post Test Year Plant Additions									
133		Additional Costs as of 5/15/2009									
134	354400	WW Struct & Impt TDP	18,626								18,626
135	370000	WW Receiving Wells	548,541								548,541
136	371100	WW Pump Equip Elect	15								15
137	380000	WW TD Equipment	150								150
138	380350	WW TD Equip Sec Trmt Filter	38,691								38,691
139											
140		Rounding	(2)								(2)
141											
142		Total Plant in Service	131,361,185	(1,039,823)	(1,838,637)	-	-	-	-	-	128,482,725
143											
144		Accumulated Depreciation	22,837,366						(630,244)		22,207,122
145		Net Plant in Service (L58 - L 59)	\$ 108,523,819	\$ (1,039,823)	\$ (1,838,637)	\$ -	\$ -	\$ -	\$ 630,244	\$ -	\$ 106,275,603
146											
147		LESS:									
148		Contributions in Aid of Construction (CIAC)	\$ 14,883,541		\$ -	\$ -	\$ -	\$ 65,490	\$ -	\$ -	\$ 14,949,031
149		Less: Accumulated Amortization	1,054,390	-	-	-	-	-	-	-	1,054,390
150		Net CIAC (L63 - L64)	13,829,151	-	-	-	-	65,490	-	-	13,894,641
151		Advances in Aid of Construction (AIAC)	48,273,364	-	-	-	-	-	-	-	48,273,364
152		Imputed Reg Advances	-	-	-	-	-	-	-	-	-
153		Imputed Reg CIAC	143,475	-	-	-	-	-	-	-	143,475
154		Accumulated Deferred Income Tax Credits	-	-	-	-	-	-	-	-	-
155		Customer Meter Deposits	-	-	-	-	-	-	-	-	-
156		ADD:									
157		Working Capital Allowance	285,666	-	-	(278,553)	-	-	-	-	7,113
158		Accumulated Deferred Income Tax Debits	1,049,621	-	-	-	(27,084)	-	-	-	1,022,537
159		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-	-	-
160		Material and Supplies Inventory	2,495	-	-	-	-	-	-	-	2,495
161		Prepayments	44,740	-	-	-	-	-	-	-	44,740
162		Projected Capital Expenditures	-	-	-	-	-	-	-	-	-
163		Deferred Debits	75,382	-	-	-	-	-	-	-	75,382
164		Rounding	(1)								(1)
165		Original Cost Rate Base	\$ 47,735,732	\$ (1,039,823)	\$ (1,838,637)	\$ (278,553)	\$ (27,084)	\$ (65,490)	\$ 630,244	\$ -	\$ 45,116,389

RATE BASE ADJUSTMENT # 1 - NW VALLEY REGIONAL TREATMENT FACILITY

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	352000	WW Franchises	417	(52)	365
2	353200	WW Land & Ld Rights Coll	144,900	(18,113)	126,788
3	353500	WW Land & Ld Rights Gen	6,639	(830)	5,809
4	354200	WW Struct & Imp Coll	880,759	(110,095)	770,664
5	354300	WW Struct & Imp SPP	309,844	(38,731)	271,114
6	355400	WW Struct & Imp TDP	-	-	-
7	354500	WW Struct & Imp Gen	511,449	(63,931)	447,518
8	355200	WW Pwr Gen Equip Coll	2,545	(318)	2,227
9	355300	WW Pwr Gen Equip SPP	-	-	-
10	360000	WW Collection Sewers Forced	-	-	-
11	361100	WW Collecting Mains	35,134	(4,392)	30,742
12	362000	WW Special Coll Struct	165,708	(20,714)	144,995
13	363000	WW Services Sewer	8,285	(1,036)	7,249
14	364000	WW Flow Measuring Devices	1,760	(220)	1,540
15	370000	WW Receiving Wells	-	-	-
16	371100	WW Pump Equip Elect	129,472	(16,184)	113,288
17	371200	WW Pump Equip Other Pwr	118	(15)	103
18	380000	WW TD Equipment	673,966	(84,246)	589,720
19	380050	WW TD Equip Grit Removal	352,780	(44,097)	308,683
20	380100	WW TD Equip Sed Tanks/Acc	1,717,913	(214,739)	1,503,174
21	380200	WW TD Equip Sludge/Eff Rmv	16,730	(2,091)	14,639
22	380250	WW TD Equip Sludge Dig Tnk	22,897	(2,862)	20,035
23	380300	WW TD Equip Sludge Dry/Fit	1,929,814	(241,227)	1,688,587
24	380350	WW TD Equip Sec Trmt Filtr	8,181	(1,023)	7,158
25	380400	WW TD Equip Aux Effl Trmt	410,850	(51,356)	359,494
26	380500	WW TD Equip Chem Trmt Plnt	649	(81)	568
27	380600	WW TD Equip Other Disp	332,677	(41,585)	291,092
28	380625	WW TD Equip Gen Trmt	253,425	(31,678)	221,747
29	380650	WW TD Equip Influent Lift S	23,045	(2,881)	20,164
30	381000	WW Plant Sewers	5,251	(656)	4,595
31	382000	WW Outfall Sewer Lines	37,568	(4,696)	32,872
32	389100	WW Oth Plnt & Misc Equip Int	6,197	(775)	5,422
33	389600	WW Oth Plnt & Misc Equip	-	-	-
34	390000	WW Office Furniture & Equip	53,781	(6,723)	47,058
35	390200	WW Computers & Peripheral	6,449	(806)	5,643
36	390300	WW Computer Software	20,152	(2,519)	17,633
37	391000	WW Trans Equipment	76,641	(9,580)	67,061
38	392000	WW Stores Equipment	3,606	(451)	3,155
39	393000	WW Tool Shop & Garage Equip	39,753	(4,969)	34,784
40	394000	WW Laboratory Equip	31,584	(3,948)	27,636
41	395000	WW Power Operated Equip	4,145	(518)	3,627
42	396000	WW Communication Equip	71,104	(8,888)	62,216
43	397000	WW Misc Equipment	22,396	(2,800)	19,597
44			<u>8,318,584</u>	<u>(1,039,823)</u>	<u>7,278,761</u>
45					
46					
47	Cost Allocation Percentage		Prior	Current	
48	Sun City West		68%	72%	
49	Anthem Agua Fria		32%	28%	

References:

Column [A]: Amounts included in plant balances per filing.

Column (B): Per Testimony GTM

Column (C): Column [A] less Column [B]

RATE BASE ADJUSTMENT # 2 - VERRADO WWTF ADJUSTMENT

LINE NO.	DESCRIPTION	Acct No.	[A] Company Proposed AMOUNT	[B] AMOUNT EXCLUDED	[C] STAFF RECOMMENDED
1	WW Struct & Imp TDP	354400	\$ 5,374,047	\$ (547,937)	\$ 4,826,110
2	WW Pump Equip Elect	371100	\$ 409,283	(158,136)	251,147
3	WW TD Equip	380000	\$ 1,964,399	(1,132,564)	831,745
4	WW TD Equip Grit Remov	380050	\$ 527,158	-	527,158
5	WW Equip Sed /Tanks Acc	380100	\$ 1,797,750	-	1,797,750
6	WW TD Equip Sldge Dig Tnk	380250	\$ 532,857	-	532,857
7	WW TD Equip Sec Trmt Fil	380350	\$ 581,647	-	581,647
8	WW TD Equip Aux Effl Trmt	380400	\$ 649,801	-	649,801
9	WW TD Equip Chem Trmt Plt	380500	\$ 48,465	-	48,465
10	WW Communication Equip	396000	\$ 410,498	-	410,498
11	WW Receving Wells	370000	\$ 351,452	-	351,452
12	Verrado Grand Total Phase II		<u>\$ 12,647,357</u>	<u>\$ (1,838,637)</u>	<u>10,808,630</u>

REFERENCES:

Columns [A]: Company Schedules  
Column [B]: GTM Testimony  
Column [C]: Column A - Column B

RATE BASE ADJUSTMENT # 3 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG DAYS	[E] DOLLAR DAYS
1	Labor	\$ 1,335,278	\$ (43,071)	\$ 1,292,207	12.00	\$ 15,506,482
2	Purchased Water	3,368	(1,878)	1,490	52.52	78,282
3	Fuel & Power	278,664	(58,356)	220,308	23.46	5,168,423
4	Chemicals	303,374	(303,374)	-	14.63	-
5	Waste Disposal	199,095	-	199,095	26.90	5,355,377
6	Management Fees	1,528,005	(1,528,005)	-	14.77	-
7	Group Insurance	396,599	(54)	396,545	(13.70)	(5,434,173)
8	Pensions	221,640	18,666	240,306	(2.37)	(569,141)
9	Insurance Other Than Group	94,566	-	94,566	83.68	7,913,699
10	Customer Accounting	242,170	(36,401)	205,769	20.31	4,179,168
11	Rents	84,483	(883)	83,600	84.16	7,035,819
12	Miscellaneous	534,489	13,478	547,967	16.84	9,226,402
13	Maintenance Expense	246,204	(6,143)	240,061	18.24	4,378,430
14	Other Operating Expenses	166,636	-	166,636	30.00	4,999,080
15	Taxes					
16	General Taxes-Property Taxes	296,804	59,640	356,444	191.37	68,213,065
17	General Taxes-Other	87,538	-	87,538	13.35	1,168,300
18	Income Taxes	(1,020,813)	2,343,678	1,322,865	30.13	39,857,922
19	Interest Sync	1,432,072	(78,580)	1,353,492	106.25	143,808,490
20	<b>Total Operating Expenses</b>	<b>\$ 6,430,172</b>	<b>\$ 378,717</b>	<b>\$ 6,808,889</b>		<b>\$ 310,885,626</b>
21						
22						
23	Expense Lag	Line 20, Col. (E) / Col [C]	45.66			
24	Revenue Lag	Company Workpapers	46.04			
25	Net Lag	Line 24 - 23	0.38			
26	Staff Adjusted Expenses	Line 20, Col C	6,808,889			
27	Staff - Cash Working Capital	Line 25 * Line 26/365 day	7,113			
28	Company As Filed	Co Schedule B-5	285,666			
29	Staff Adjustment - Reduction to WC	To GTM-4	(278,553)			
30						
31	References:					
32	Column [A]:	Company Schedule C-1				
33	Column [B]:	Staff adjustments to expenses, See Testimony GTM				
34	Column [C]:	Column [A] + Column [B]				
35	Column [D]:	Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372				
36	Column [E]:	Column [C] * Column [D]				

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Surrebuttal Schedule GTM - 8

RATE BASE ADJUSTMENT # 4 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Income Taxes	\$ 13,025,093	\$ (336,093)	\$ 12,689,000
2	Allocation Factor	8.06%	8.06%	8.06%
3	Staff Adjustment	1,049,622	(27,084)	1,022,538

REFERENCES:

Columns [A], Line 1: Amounts used by Co as basis for allocation

Column [A], [B] & [C], Line 2: Allocation rate to this system

Column [C], Line 1: Allocable amount per audited financial statements times allocation rate

Column [A], [B] & [C], Line 3: Recalculated amounts

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Surrebuttal Schedule GTM-9 A

RATE BASE ADJUSTMENT # 5 - CIAC ASSOCIATED WITH CWIP

LINE	ACCT		[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
NO.	NO.	DESCRIPTION			
1		Contributions in Aid of Construction (CIAC)	\$ 14,883,541	\$ 65,490	\$ 14,949,031

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

RATE BASE ADJUSTMENT # 6 - ACCUMULATED DEPRECIATION (NWVRTF)

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Accumulated Depreciation	\$ 17,795,411	0	\$ 17,795,411
2	Accum Depreciation - NWVRTF	5,041,955	(630,244)	4,411,711
3	Total Accumulated Depreciation	<u>\$ 22,837,366</u>	<u>\$ (630,244)</u>	<u>\$ 22,207,122</u>

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

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Surrebuttal Schedule GTM-9 C

RATE BASE ADJUSTMENT # 7 - TRANSFER OF GENERATOR

LINE ACCT NO.	NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		WW Struct & Imp TDP	\$ 6,059,098	\$ (487,000)	\$ 5,572,098
2		WW Pwr Gen Equip RWTP	\$ 136,851	\$ 487,000	\$ 623,851

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 8,634,567	\$ -	\$ 8,634,567	\$ 5,049,396	\$ 13,683,963
3	Other Revenues	2,556	-	2,556	-	2,556
4	Other	-	-	-	-	-
5	Total Operating Revenues	\$ 8,637,123	\$ -	\$ 8,637,123	\$ 5,049,396	\$ 13,686,519
6						
7	Labor	\$ 1,335,278	\$ (43,071)	1,292,207	\$ -	\$ 1,292,207
8	Purchased Water	\$ 3,368	(1,878)	1,490	-	1,490
9	Fuel & Power	\$ 278,664	(58,356)	220,308	-	220,308
10	Chemicals	\$ 303,374	(74,553)	228,821	-	228,821
11	Waste Disposal	\$ 199,095	-	199,095	-	199,095
12	Management Fees	\$ 1,528,005	(68,990)	1,459,015	-	1,459,015
13	Group Insurance	\$ 396,599	(54)	396,545	-	396,545
14	Pensions	\$ 221,640	18,666	240,306	-	240,306
15	Regulatory Expense	\$ 80,939	(12,500)	68,439	-	68,439
16	Insurance Other Than Group	\$ 94,566	-	94,566	-	94,566
17	Customer Accounting	\$ 242,170	(36,401)	205,769	25,752	231,521
18	Rents	\$ 84,483	(883)	83,600	-	83,600
19	General Office Expense	\$ 85,697	(393)	85,304	-	85,304
20	Miscellaneous	\$ 534,489	13,478	547,967	-	547,967
21	Maintenance Expense	\$ 246,204	(6,143)	240,061	-	240,061
22	Depreciation & Amortization	\$ 3,830,808	(417,089)	3,413,719	-	3,413,719
23	General Taxes-Property Taxes	\$ 296,804	1,545	298,349	58,095	356,444
24	General Taxes-Other	\$ 87,538	-	87,538	-	87,538
25	Income Taxes	\$ (1,020,813)	295,359	(725,454)	1,916,647	1,191,193
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	Total Operating Expenses	8,828,908	(391,262)	8,437,646	2,000,493	10,438,140
42	Operating Income (Loss)	\$ (191,785)	\$ 391,262	\$ 199,477	\$ 3,048,903	\$ 3,248,379

References:

Column (A): Company Schedule C-1  
Column (B): Schedule GTM 11  
Column (C): Column (A) + Column (B)  
Column (D): Schedules GTM 2, Lines 29 and 37  
Column (E): Column (C) + Column (D)

## ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

## SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) NW/RTF ADJ #1	(C) Fuel & Power Exp ADJ #2	(D) Cust. Acctg ADJ #3	(E) Water Testing ADJ #4	(E) Depreciation Exp. ADJ #5	(F) Property Taxes ADJ #6	(G) Income Taxes ADJ #7	(H) Regulatory Exp. Adj #8	(G) Labor Adj ADJ #9	(I) Mgmt Fees ADJ #9	(J) Pension Exp. ADJ #9	(J) STAFF ADJUSTED
1	Sewer Revenues	\$ 8,634,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,634,567
3	Other Revenues	2,556	-	-	-	-	-	-	-	-	-	-	-	2,556
4	Other	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Total Operating Revenues	\$ 8,637,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,637,123
6	Labor	\$ 1,335,278	\$ (17,587)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,484)	\$ -	\$ -	1,292,207
8	Purchased Water	3,368	(1,876)	-	-	-	-	-	-	-	-	-	-	1,492
9	Fuel & Power	278,664	(58,936)	580	-	-	-	-	-	-	-	-	-	220,308
10	Chemicals	303,374	(74,553)	-	-	-	-	-	-	-	-	-	-	228,821
11	Waste Disposal	199,095	-	-	-	-	-	-	-	-	-	-	-	189,095
12	Management Fees	1,528,005	(6,054)	-	-	-	-	-	-	-	-	(62,936)	-	1,465,015
13	Group Insurance	396,599	(54)	-	-	-	-	-	-	-	-	-	-	396,545
14	Pensions	221,640	-	-	-	-	-	-	-	-	-	-	18,666	240,306
15	Regulatory Expense	80,989	-	-	-	-	-	-	-	(12,500)	-	-	-	68,489
16	Insurance Other Than Group	94,566	-	-	(36,401)	-	-	-	-	-	-	-	-	94,566
17	Customer Accounting	242,170	-	-	-	-	-	-	-	-	-	-	-	205,719
18	Rents	84,483	(883)	-	-	-	-	-	-	-	-	-	-	83,600
19	General Office Expense	85,697	(993)	-	-	-	-	-	-	-	-	-	-	84,704
20	Miscellaneous	534,489	(8,000)	-	-	-	-	-	-	-	-	-	-	526,489
21	Maintenance Expense	245,204	(6,143)	-	-	21,478	-	-	-	-	-	-	-	239,061
22	Depreciation & Amortization	3,830,808	-	-	-	-	(417,089)	1,545	-	-	-	-	-	3,413,719
23	General Taxes-Property Taxes	298,804	-	-	-	-	-	-	-	-	-	-	-	298,804
24	General Taxes-Other	87,538	-	-	-	-	-	-	-	-	-	-	-	87,538
25	Income Taxes	(1,020,813)	-	-	-	-	-	-	295,359	-	-	-	-	(725,454)
26														
27														
28														
29														
30														
31														
32														
33														
34														
35														
36														
37														
38														
39														
40														
41	Rounding	-	-	-	-	-	-	-	-	-	-	-	-	-
42	Total Operating Expenses	\$ 8,828,908	\$ (174,480)	\$ 580	\$ (36,401)	\$ 21,478	\$ (417,089)	\$ 1,545	\$ 295,359	\$ (12,500)	\$ (25,484)	\$ (62,936)	\$ 18,666	\$ 8,437,949
43	Operating Income (Loss)	\$ (191,785)	\$ 174,480	\$ (580)	\$ 36,401	\$ (21,478)	\$ 417,089	\$ (1,545)	\$ (295,359)	\$ 12,500	\$ 25,484	\$ 62,936	\$ (18,666)	\$ 199,477

OPERATING INCOME ADJUSTMENT # 1 - NWWRTF OPERATING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]
1	NWWRTF allocated operating expenses	\$ 579,897	\$ (174,480)	\$ 405,418	
		Total costs NWWRTF	Co. Proposed 32%	Staff Recommended 28%	Difference
2	Labor	\$ 439,680	\$ 140,698	\$ 123,110	\$ (17,587)
3	Purchased Water	46,939	15,020	13,143	(1,878)
4	Fuel & Power (a)	373,211	119,428	60,492 (c)	(58,936)
5	Chemicals (a)	414,181	132,538	57,985	(74,553)
6	Waste Disposal	-	-	-	-
7	Management Fees	151,361	48,436	42,381	(6,054)
8	Group Insurance	1,351	432	378	(54)
9	Pensions	-	-	-	-
10	Regulatory Expense	-	-	-	-
11	Insurance Other Than Group	-	-	-	-
12	Customer Accounting	-	-	-	-
13	Rents	22,082	7,066	6,183	(883)
14	General Office Expense	9,819	3,142	2,749	(393)
15	Miscellaneous	199,988	63,996	55,997	(8,000)
16	Maintenance Expense	153,567	49,141	42,999	(6,143)
17	Depreciation & Amortization	1,176,113	(b)	(b)	(b)
18	General Taxes-Property Taxes	186,526	(b)	(b)	(b)
19	General Taxes-Other	-	-	-	-
20	Income Taxes	-	-	-	-
21					
22					
23	Total O & M Expenses	\$ 3,174,818	\$ 579,897	\$ 405,418	\$ (174,480)
24		32%			
25	Anthem's 68% of the NWWRTF costs	\$ 1,015,942			
26	(a) Variable cost allocation: Anthem Agua Fria (14%) and Sun City West (86%)				
27	(b) Depreciation and Property Taxes Separately Reviewed				
28	(c) Staff recommended for NWWRTF based on revised APS annualization: (\$432,085 * 14%)				
29		Current	Future		
30	Cost Allocation	Capacity	Growth		
31	Anthem Agua Fria	14%	28%		
32	Sun City West	86%	72%		

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 2 - FUEL & POWER EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Fuel & Power - All Other	\$ 159,236	\$ 580	\$ 159,816
2	Total Company Proposed Fuel and Power	\$ 278,664		
3	Less: Company Proposed Fuel and Power - NWWRTF	\$ 119,428		
4	Company Proposed Fuel and Power - All Other			\$ 159,236
5				
6	Total Staff Recommended		\$ 220,308	
7	Total Staff NWWRTF	\$ 432,085		
8	Staff NWWRTF Allocation Factor	14%		
9	Less: Staff Recommended for NWWRTF		\$ 60,492	
10	Staff Recommended for All Other			\$ 159,816
11	Staff Adjustment - Fuel and Power - All Other			\$ 580

References:

Column (A), Company Schedule C-1, C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 3 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Uncollectible Accounts (Ordinary Activity)	\$ 116,460	\$ (72,809)	\$ 43,651
2	Uncollectible Accounts - MI (Misc Invoices)	(36,501)	\$ 36,408	\$ (93)
3	Total Uncollectibles	<u>\$ 79,959</u>	<u>\$ (36,401)</u>	<u>\$ 43,558</u>
4				
5	Total Uncollectible Accounts	\$ 1,152,299		
6	Allocation Percentage-	10.11%		
7	Bad Debts included in Customer Accounting	\$ 116,460		
8				
9	Staff Adjusted Test Year Revenue GTM-10			\$ 8,637,123
10	3 year average Bad Debt Exp. Rate, Per Co.			0.51%
11	Staff Recommended Bad Debt Exp			<u>\$ 43,651</u>
12				
13	Adjustment for Bad Debt Expense Ordinary activity		\$ (72,809)	
14				
15	Normalization of Uncollectible Accounts- Miscellaneous Invoices			
16				
17	2006			\$ 341,820
18	2007			\$ 16,584
19	2008			<u>\$ (361,154)</u>
20	3 year total			\$ (2,750)
21	3 year average			<u>\$ (917)</u>
22	2008 Test Year, Col [C], line 19	\$ (361,154)		
23	Co. Allocated %	10.11%		10.11%
24	Company proposed amount	<u>(36,501)</u>		<u>\$ (93)</u>
25	Adjustment for uncollectibles - MI		(36,408)	
26	Net Adjustment Uncollectibles - Ordinary activity & MI		<u>\$ (36,401)</u>	

References:

Column [A], Company Workpapers  
Column [B], line 13: Col. [C], line 11, less Col [A], line 7  
Column [B], line 26: Col. [C], line 25, less Col [A], line 25  
Column [B], line 27: Col. [B], line 13, plus Col [B], line 26  
Column (C): Line 10, Per Company's Workpapers  
Column (C): Lines 18-20, & 25 Per Company's Workpapers

## ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

RECONCILIATION OF SCHEDULE C-1, CUSTOMER ACCOUNTING TO SUPPORTING WORK  
to Supporting Workpapers

Note: CA means Customer Accounting, not California

Line No.		[A] AZ Corporate Total 12/31/2008	[B] Sun City WW Corp Allocation 12/31/2008	[C] Sun City West WW Corp Allocation 12/31/2008	[D] Agua Fria WW Corp Allocation 12/31/2008	[E] Anthem WW Corp Allocation 12/31/2008	[F] Anthem/AF comb Corp Allocation 12/31/2008
		Recorded	Actual	Actual	Actual	Actual	Actual
1	4 Factor Allocation Percentages used:		7.54%	6.38%	6.57%	5.79%	
2	P18 Customer Accounting	\$ 46,423	\$ 3,503	\$ 2,964	\$ 3,049	\$ 2,687	\$ 5,735
3		\$ 1,152,299	\$ 86,939	\$ 73,565	\$ 75,675	\$ 66,684	\$ 142,359
4		\$ (361,154)	\$ (27,248)	\$ (23,057)	\$ (23,718)	\$ (20,900)	\$ (44,618)
5	570100	\$ 3,018	\$ 228	\$ 193	\$ 198	\$ 175	\$ 373
6	575000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	1510 Misc Oper CA Mtr Read	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	1515 Misc Oper CA Cust Rec	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	1520 Misc Oper CA Cust Serv	\$ 161,225	\$ 12,164	\$ 10,293	\$ 10,588	\$ 9,330	\$ 19,918
10	575100 Bank Service Charges CA	\$ 21,336	\$ 1,610	\$ 1,362	\$ 1,401	\$ 1,235	\$ 2,636
11	575120 Bill Inserts CA	\$ 11,301	\$ 853	\$ 721	\$ 742	\$ 654	\$ 1,396
12	575200 Collection Agencies CA	\$ 223,097	\$ 16,832	\$ 14,243	\$ 14,651	\$ 12,911	\$ 27,582
13	575420 Forms CA	\$ 26,411	\$ 1,993	\$ 1,686	\$ 1,734	\$ 1,528	\$ 3,263
14	575620 Office & Admin Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	575625 Overnight Shipping CA	\$ 543,710	\$ 41,022	\$ 34,711	\$ 35,707	\$ 31,465	\$ 67,172
16	575660 Postage CA	\$ 682	\$ 51	\$ 44	\$ 45	\$ 39	\$ 84
17	575710 Security Service CA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18	575740 Telephone CA	\$ 46,102	\$ 3,478	\$ 2,943	\$ 3,028	\$ 2,668	\$ 5,696
19	575741 Cell Phone CA	\$ 24,724	\$ 1,865	\$ 1,578	\$ 1,624	\$ 1,431	\$ 3,055
20	575743 Wireless Serv 1st CA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	575820 Uniforms CA	\$ 1,899,173	\$ 143,289	\$ 121,246	\$ 124,724.36	\$ 109,906.11	\$ 234,630.35
22	P18 Customer Accounting						
23	Total	\$ -	\$ 350	\$ 252	\$ 124,724	\$ 109,906	\$ 122
24	Amount Recorded Directly (Not Allocated)	\$ -	\$ 143,639	\$ 121,499	\$ 124,724	\$ 109,906	\$ 234,752
25	Total, as recalculated above.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	Test Year Book Results, Customer Accounting	\$ -	\$ 143,639	\$ 121,498	\$ (124,724)	\$ (109,906)	\$ 234,752
27	Expense, Schedule C-1	\$ -	\$ (0)	\$ (0)	\$ -	\$ -	\$ (0)
28	Unreconciled Difference.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

## Sources:

Columns [A]-[C], lines 1-21: From Company Workpaper,  
08 A of I-AZ Corp Summary w Pro Forms Distributed to Districts.xlsColumns [B], line 23: From Company Workpaper,  
Sun City WW AI 2008.xlsColumns [C], line 23: From Company Workpaper,  
Sun City West WW AI 2008.xlsColumns [C], line 23: From Company Workpaper,  
Sun City West WW AI 2008.xls

Columns [B] and [C], lines 26-27: Company's Application

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Surrebuttal Schedule GTM-15

OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Miscellaneous	\$ 62,813	\$ 21,478	\$ 84,291

References:

Column (A), Company Schedule C-2 p. 26

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 5- DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation & Amortization	\$ 3,830,808	\$ (417,089)	\$ 3,413,719

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
2		<u>PLANT IN SERVICE:</u>	B-2 page 6		
3					
4	304100	Struct & Imp SS	11,726	0.00%	-
5	304200	Struct & Imp P	-	0.00%	-
6	304510	Struct & Imp AG Capital Lease	-	0.00%	-
7	304600	Struct & Imp Offices	-	0.00%	-
8	304620	Struct & Imp Leasehold	-	0.00%	-
9	304800	Struct & Imp Misc	-	0.00%	-
10	307000	Wells & Springs	-	0.00%	-
11	340100	Office Furniture & Equip	-	0.00%	-
12	304200	Computer & Periph Equip	25,424	10.00%	2,542
13	340300	Computer Software	-	0.00%	-
14	340330	Comp Software Other	-	0.00%	-
15	340500	Other Office Equip	-	0.00%	-
16	341100	Trans Equip Lt Duty Trucks	-	20.00%	-
17	341200	Trans Equip Hvy Duty Trucks	60,471	15.00%	9,071
18	341400	Trans Equip Other	8,352	16.67%	1,392
19	343000	Tools, Shop, Garage Equip	29,267	4.47%	1,308
20	344000	Laboratory Equipment	-	0.00%	-
21	346100	Comm Equip Non-Telephone	-	0.00%	-
22	346200	Comm Equip Telephone	-	0.00%	-
23	346300	Comm Equip Other	-	0.00%	-
24	346700	Misc Equipment	-	0.00%	-
25	351000	WW Organization	-	0.00%	-
26	352000	WW Franchises	495,058	0.00%	-
27	353200	WW Land & Ld Rights Coll	353,370	0.00%	-
28	353500	WW Land & Ld Rights Gen	143,036	0.00%	-
29	354200	WW Struct & Imp Coll	2,047,885	1.67%	34,200
30	354400	WW Struct & Imp TDP	5,572,098	1.67%	93,054
31	354500	WW Struct & Imp Gen	10,622,274	1.67%	177,392
32	355500	WW Pwr Gen Equip RWTP	623,851	4.42%	27,574
33	360000	WW Collection Sewers Forced	2,729,254	2.07%	56,496
34	361100	WW Collecting Mains	46,641,273	2.04%	951,482
35	362000	WW Special Coll Struct	181,571	2.04%	3,704
36	363000	WW Service Sewer	6,195,971	2.04%	126,398
37	364000	WW Flow Measuring Devices	490,498	10.00%	49,050
38	370000	WW Receiveing Wells	3,062,054	3.33%	101,966
39	371100	WW Pump Equip Elect	2,165,606	5.42%	117,376
40	371200	WW Pump Equip Other Pwr	6,216	5.42%	337
41	380000	WW TD Equip	1,706,736	5.00%	85,337
42	380050	WW TD Equip Grit Removal	10,086,969	5.00%	504,348
43	380100	WW TD Equip Sed Tanks/Acc	3,865,949	5.00%	193,297
44	380200	WW TD Equip Sidge/Eff Rmv	3,041	5.00%	152
45	380250	WW TD Equip Sludge Dig Tank	2,572,930	5.00%	128,647
46	380300	WW TD Equip Sludge Dry Filter	11,848,060	5.00%	592,403
47	380400	WW TD Equip Aux Effl Trmt	772,399	5.00%	38,620
48	380500	WW TD Equip Chem Trmt Plt	1,113,216	5.00%	55,661
49	380600	WW TD Equip Oth Disp	845,799	5.00%	42,290
50	380625	WW TD Equip Gen Tmt	143,294	5.00%	7,165
51	380650	WW TD Equip Influent Lift S	18,743	5.00%	937
52	381000	WW Plant Sewers	657,626	5.00%	32,881
53	382000	WW Outfall Sewer Lines	724,631	5.00%	36,232
54	389100	WW Oth Plt & Misc Equip Int	1,024,024	4.98%	50,996
55	389600	WW Oth Plt & Misc Equip	-	0.00%	-
56	390000	WW Office Furniture & Equip	31,682	4.59%	1,454
57	391000	WW Trans Equipment	-	20.00%	-
58	392000	WW Stores Equipment	-	3.96%	-
59	393000	WW Tool Shop & Garage Equip	16,453	4.47%	735
60	394000	WW Laboratory Equipment	48,048	3.71%	1,783
61	395000	WW Power Operated Equip	1,028,920	5.02%	51,652
62	396000	WW Communication Equip	2,134,843	10.30%	219,889
63	397000	WW Misc Equipment	-	5.10%	-
64	398000	WW Other Tangible Equipment	169,085	10.30%	17,416
65					
66		Allocated From Corp to Districts (SLM-2)	B-2 page 9		
67	303600	Land & Land Rights AG	-	0.00%	-
68	304510	Struct & Imp AG Cap Lease	-	0.00%	-
69	304600	Struct & Imp Offices	-	0.00%	-
70	304800	Struct & Imp Misc	-	0.00%	-
71	304620	Struct & Imp Leasehold	15,936	14.28%	2,276
72	3310001	Mains	-		-
73	339600	Other P/E CPS	4,162	3.30%	137
74	340100	Office Furniture & Equip	92,919	4.04%	3,754
75	340200	Comp & Periph Equip	40,360	10.00%	4,036
76	340300	Computer Software	146,548	25.00%	36,637
77	340330	Computer Software Other	3,768	25.00%	942
78	340500	Other Office Equipment	-	0.00%	-
79	341100	Trans Equip Lt Duty Trucks	-	25.00%	-
80	343000	Tool Shop & Garage Equip	-	4.47%	-

81	344000	Laboratory Equipment	-	3.71%	-
82	345000	Power Operated Equipment	-	1.53%	-
83	346100	Comm Equip Non-Telephone	14,995	8.25%	1,237
84	346200	Communication Equip Telephone	1,156	8.25%	95
85	346300	Communication Equip Other	395	5.35%	21
86	347000	Misc Equipment	-	-	-
87	380400	WW TD Equip Aux Eff Tmt	-	-	-
88	393000	WW Tool Shop & Garage Equip	-	-	-
89					
90					
91		<b>Allocation of 32 % of NWVTP (LJG-3)</b>	<b>B-2 page 12</b>		
92	352000	WW Franchises	365	0.00%	-
93	353200	WW Land & Ld Rights Coll	126,788	0.00%	-
94	353500	WW Land & Ld Rights Gen	5,809	0.00%	-
95	354200	WW Struct & Imp Coll	770,664	1.67%	12,870
96	354300	WW Struct & Imp SPP	271,114	5.00%	13,556
97	355400	WW Struct & Imp TDP	-	5.00%	-
98	354500	WW Struct & Imp Gen	447,518	1.67%	7,474
99	355200	WW Pwr Gen Equip Coll	2,227	3.30%	73
100	355300	WW Pwr Gen Equip SPP	-	3.30%	-
101	360000	WW Collection Sewers Forced	-	2.07%	-
102	361100	WW Collecting Mains	30,742	2.04%	627
103	362000	WW Special Coll Struct	144,995	2.04%	2,958
104	363000	WW Services Sewer	7,249	2.04%	148
105	364000	WW Flow Measuring Devices	1,540	10.00%	154
106	370000	WW Receiving Wells	-	3.33%	-
107	371100	WW Pump Equip Elect	113,288	5.42%	6,140
108	371200	WW Pump Equip Other Pwr	103	5.42%	6
109	380000	WW TD Equipment	589,720	5.00%	29,486
110	380050	WW TD Equip Grit Removal	308,683	5.00%	15,434
111	380100	WW TD Equip Sed Tanks/Acc	1,503,174	5.00%	75,159
112	380200	WW TD Equip Sldge/Eff Rmv	14,639	5.00%	732
113	380250	WW TD Equip SldgeDig Trk	20,035	5.00%	1,002
114	380300	WW TD Equip Sldge Dry/Filt	1,688,587	5.00%	84,429
115	380350	WW TD Equip Sec Trmt Filt	7,158	5.00%	358
116	380400	WW TD Equip Aux Eff Trmt	359,494	5.00%	17,975
117	380500	WW TD Equip Chem Trmt Pint	568	5.00%	28
118	380600	WW TD Equip Other Disp	291,092	5.00%	14,555
119	380625	WW TD Equip Gen Trmt	221,747	5.00%	11,087
120	380650	WW TD Equip Influent Lift S	20,164	5.00%	1,008
121	381000	WW Plant Sewers	4,595	5.00%	230
122	382000	WW Outfall Sewer Lines	32,872	5.00%	1,644
123	389100	WW Oth Pint & Misc Equip Int	5,422	4.98%	270
124	389600	WW Oth Pint & Misc Equip	-	4.98%	-
125	390000	WW Office Furniture & Equip	47,058	4.59%	2,160
126	390200	WW Computers & Peripheral	5,643	10.00%	564
127	390300	WW Computer Software	17,633	25.00%	4,408
128	391000	WW Trans Equipment	67,061	20.00%	13,412
129	392000	WW Stores Equipment	3,155	3.96%	125
130	393000	WW Tool Shop & Garage Equip	34,784	4.47%	1,555
131	394000	WW Laboratory Equip	27,636	3.71%	1,025
132	395000	WW Power Operated Equip	3,627	5.02%	182
133	396000	WW Communication Equip	62,216	10.30%	6,408
134	397000	WW Misc Equipment	19,597	5.10%	999
135					
136					
137		<b>Post Test Year Plant Additions</b>	<b>B-2 page 15</b>		
138		Additional Costs as of 5/15/2009			
139	354400	WW Struct & Impt TDP	18,626	1.67%	311
140	370000	WW Receiving Wells	548,541	3.33%	18,266
141	371100	WW Pump Equip Elect	15	5.42%	1
142	380000	WW TD Equipment	150	5.00%	8
143	380350	WW TD Equip Sec Trmt Filter	38,691	5.00%	1,935
144					
145					
146		Rounding	(2)		
147		<b>Total Plant in Service</b>	<b>128,482,725</b>	<b>3.28%</b>	<b>4,213,134</b>
148					
149					
150		Less Non Depreciable Plant			
151	352000	WW Franchises	495,058	0.00%	-
152	353200	WW Land & Ld Rights Coll	353,370	0.00%	-
153	353500	WW Land & Ld Rights Gen	143,036	0.00%	-
154	352000	WW Franchises	365	0.00%	-
155	353200	WW Land & Ld Rights Coll	126,788	0.00%	-
156	353500	WW Land & Ld Rights Gen	5,809	0.00%	-
157		Net Depreciable Plant and Depreciation Amounts	\$ 127,358,299		\$ 4,213,134
158		Composite Depreciation Rate		3.31%	
159		Less			
160		Amortization of Regulatory CIAC at Settlement Rate			304,886
161		Amortization of CIAC at Composite Rate	\$ 14,949,031		\$ 494,528
162		Staff Recommended Depreciation Expense			\$ 3,413,719
163		Company Proposed Depreciation Expense			3,830,808
164		Staff Adjustment			\$ (417,089)

OPERATING INCOME ADJUSTMENT # 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 8,637,123	\$ 8,637,123
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	17,274,246	17,274,246
4	Staff Adjusted Test Year Revenues - 2008	8,637,123	
5	Staff Recommended Revenue		13,686,519
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	25,911,369	30,960,765
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	8,637,123	10,320,255
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	17,274,246	20,640,510
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	17,287,700	20,653,964
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	3,803,294	4,543,872
16	Composite Property Tax Rate - Obtained from ADOR	7.84%	7.84%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 298,349	
18	Company Proposed Property Tax	\$ 296,804	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 1,545	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 356,444
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 298,349
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 58,095
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 58,095
24	Increase in Revenue Requirement		\$ 5,049,396
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.15053%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 24  
Line 21: Line 19 - Line 20  
Line 23: Schedule GTM-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
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Surrebuttal Schedule GTM-18

OPERATING INCOME ADJUSTMENT # 7 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$(1,020,813)</u>	<u>\$ 295,359</u>	<u>\$ (725,454)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - ANTHEM AGUA FRIA WASTEWATER  
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Surrebuttal Schedule GTM-19

OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	<u>\$ 80,939</u>	<u>\$ (12,500)</u>	<u>\$ 68,439</u>

References:

Column (A), Company Schedule C-2, p. 16  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 9 - ACCEPTING RUCO ADJUSTMENTS

LINE	ACCT		[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
NO.	NO.	DESCRIPTION			
1		Labor - AIP Adjustment	\$ 1,335,278	(17,639)	\$ 1,317,639
2		Labor - Stock Comp Adj	1,317,639	(7,845)	1,309,794
3		<b>Total Labor Adjustment</b>		<b>(25,484)</b>	
4					
5		Management Fees - AIP Adj	\$ 1,528,005	(5,249)	\$ 1,522,756
6		Management Fees - Stock Comp Adj	1,522,756	(19,895)	1,502,861
7		Management Fees - other expenses adj	1,502,861	(21,050)	1,481,811
8		Management Fees - BD expense	1,481,811	(12,453)	1,469,358
9		Management Fees - Dues & Donations	\$ 1,469,358	(4,289)	\$ 1,465,069
		<b>Total Management Fees Adjustment</b>		<b>(62,936)</b>	
		<b>Pension Adjustment</b>	\$ 221,640	<b>18,666</b>	\$ 240,306

References:

Column (A), Company Schedule

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

**ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER**

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

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GTM- 2	GROSS REVENUE CONVERSION FACTOR
GTM- 3	RATE BASE - ORIGINAL COST
GTM- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GTM- 5	RATE BASE ADJUSTMENT # 1 - COMPREHENSIVE PLANNING STUDY COSTS
GTM- 6	RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL
GTM- 7	RATE BASE ADJUSTMENT # 3 - ACCUMULATED DEFERRED INCOME TAXES
GTM- 8	RATE BASE ADJUSTMENT # 4 - CIAC ASSOCIATED WITH CWIP
GTM- 9	NOT USED
GTM- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
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GTM- 13.1	RECONCILIATION OF SCHEDULE C-1, CUSTOMER ACCOUNTING TO SUPPORTING WO
GTM- 14	OPERATING INCOME ADJUSTMENT # 3- DEPRECIATION EXPENSE
GTM- 15	OPERATING INCOME ADJUSTMENT # 4 - PROPERTY TAX EXPENSE
GTM- 16	OPERATING INCOME ADJUSTMENT # 5 - INCOME TAXES
GTM- 17	OPERATING INCOME ADJUSTMENT # 6 - REGULATORY EXPENSE
GTM- 18	OPERATING INCOME ADJUSTMENT # 7 - ACCEPTING RUCO ADJUSTMENTS
GTM- 19	OPERATING INCOME ADJUSTMENT # 8 - GLENDALE WASTE DISPOSAL EXPENSE

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 14,764,087	\$ 14,764,087	\$ 14,584,558	\$ 14,584,558
2	Adjusted Operating Income (Loss)	\$ (51,594)	\$ (51,594)	\$ 65,463	\$ 65,463
3	Current Rate of Return (L2 / L1)	-0.35%	-0.35%	0.45%	0.45%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 1,259,377	\$ 1,259,377	\$ 1,050,088	\$ 1,050,088
6	Operating Income Deficiency (L5 - L2)	\$ 1,310,969	\$ 1,310,971	\$ 984,625	\$ 984,625
7	Gross Revenue Conversion Factor	1.6453	1.6453	1.6438	1.6438
8	Required Revenue Increase (L7 * L6)	\$ 2,156,882	\$ 2,156,882	\$ 1,618,574	\$ 1,618,574
9	Adjusted Test Year Revenue	\$ 5,940,381	\$ 5,940,381	\$ 5,940,381	\$ 5,940,381
10	Proposed Annual Revenue (L8 + L9)	\$ 8,097,263	\$ 8,097,263	\$ 7,558,955	\$ 7,558,955
11	Required Increase in Revenue (%)	36.31%	36.31%	27.25%	27.25%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column (A): Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0798%			
3	Revenues (L1 - L2)	99.9202%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0873%			
5	Subtotal (L3 - L4)	60.8329%			
6	Revenue Conversion Factor (L1 / L5)	1.643847			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.1300%			
11	Uncollectible Factor (L9 * L10)		0.0798%		
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 46)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (GTM-15, L25)	0.7954%			
22	Effective Property Tax Factor (L20*L21)		0.4884%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L23)			39.0873%	
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 1,050,088			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$ 65,463			
26	Required Increase in Operating Income (L24 - L25)		\$ 984,625		
27	Income Taxes on Recommended Revenue (Col. (D), L45)	\$ 385,071			
28	Income Taxes on Test Year Revenue (Col. (A), L45)	\$ (233,899)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 618,970		
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$ 1,618,574			
31	Uncollectible Rate (Line 10)	0.1300%			
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)		\$ 2,104		
33	Property Tax with Recommended Revenue (GTM-15, Col B, L20)	\$ 154,785			
34	Property Tax on Test Year Revenue (GTM-15, Col A, L17)	\$ 141,911			
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)		\$ 12,874		
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)		\$ 1,618,574		
<u>Calculation of Income Tax:</u>					
37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L9)	\$ 5,940,381			
38	Operating Expenses Excluding Income Taxes	\$ 6,108,817			
39	Synchronized Interest (L54)	\$ 437,537			
40	Arizona Taxable Income (L37 - L38 - L39)	\$ (605,973)			
41	Arizona State Income Tax Rate	6.9680%			
42	Arizona Income Tax (L40 x L41)	\$ (42,224)			
43	Federal Taxable Income (L40 - L42)	\$ (563,748)			
44	Total Federal Income Tax	\$ (191,674)			
45	Combined Federal and State Income Tax (L42 + L44)	\$ (233,899)			
46	Effective Tax Rate				34.0000%
<u>Calculation of Interest Synchronization:</u>					
47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	\$ 14,584,558			
48	Weighted Average Cost of Debt	3.0000%			
49	Synchronized Interest (L47 X L48)	\$ 437,537			

(A)	
Test Year	
Sun City Wastewater	
\$	5,940,381
\$	6,108,817
\$	437,537
\$	(605,973)
	6.9680%
\$	(42,224)
\$	(563,748)
\$	(191,674)
\$	(233,899)

(B)	
Staff Recommended	
Sun City Wastewater	
\$	7,558,955
\$	6,123,795
\$	437,537
\$	997,623
	6.9680%
\$	69,514
\$	928,108
\$	315,557
\$	385,071

## ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER

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Surrebuttal Schedule GTM-3

Test Year Ended December 31, 2008

## RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 24,469,337	\$ (12,242)	\$ 24,457,095
2 Less: Accumulated Depreciation	10,761,769	-	10,761,769
3 Net Plant in Service	<u>\$ 13,707,568</u>	<u>\$ (12,242)</u>	<u>\$ 13,695,326</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 18,920	\$ 3,743	\$ 22,663
5 Less: Accumulated Amortization	6,593	-	6,593
6 Net CIAC	<u>12,327</u>	<u>3,743</u>	<u>16,070</u>
7 Advances in Aid of Construction (AIAC)	2,660,292		2,660,292
8 Imputed Reg AIAC	-	-	-
9 Imputed Reg CIAC	360,708	-	360,708
10 Accumulated Deferred Income Tax Credits			-
Customer Meter Deposits	-		-
<u>ADD:</u>			
11 Cash Working Capital	129,827	(116,472)	13,355
12 Accumulated Deferred Income Tax Debits	1,824,256	(47,072)	1,777,184
13 Supplies Inventory	597	-	597
14 Prepayments	77,758	-	77,758
15 Deferred Debits	<b>2,057,405</b>	-	2,057,405
16 Purchase Wastewater Treatment Charges	-		-
Rounding	3		3
17 <b>Original Cost Rate Base</b>	<u>\$ 14,764,087</u>	<u>\$ (179,529)</u>	<u>\$ 14,584,558</u>

References:

Column (A), Company Schedule B-2

Column (B): Schedule GTM-4

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule GTM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	Planning Study [B] ADJ #1	Working Capital [C] ADJ #2	Deferred Income Taxes [D] ADJ #3	CIAC associated with CWIP [E] ADJ #4	[F] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>								
1	351000	WW Organization	122,373					\$ 122,373
2	352000	WW Franchises	6,132					6,132
3	353200	WW Land & Ld Rights Coll	6,565					6,565
4	354200	WW Struct & Imp Coll	187,017					187,017
5	354500	WW Struct & Imp Gen	465,769					465,769
6	355400	WW Power Gen Equip TDP	49,003					49,003
7	360000	WW Collection Sewers Forced	2,397,611					2,397,611
8	361100	WW Collecting Mains	16,050,734					16,050,734
9	362000	WW Special Coll Struct	1,219,748					1,219,748
10	363000	WW Service Sewer	2,680,127					2,680,127
11	364000	WW Flow Measuring Devices	33,470					33,470
12	371100	WW Pump Equip Elect	495,398					495,398
13	380050	WW TD Equip Grit Removal	453					453
14	380100	WW TD Equip Sed Tanks/Acc	2,575					2,575
15	380600	WW TD Equip Oth Disp	1,503					1,503
16	380625	WW TD Equip Gen Tmt	115,202					115,202
17	380650	WW TD Equip Influent Lift S	178					178
18	382000	WW Outfall Sewer Lines	291					291
19	389100	WW Oth Plt & Misc Equip Int	10,495					10,495
20	389600	WW Oth Plt & Misc Equip	12,242	(12,242)				-
21	390000	WW Office Furniture & Equip	54,203					54,203
22	391000	WW Trans Equipment	2,312					2,312
23	393000	WW Tool Shop & Garage Equip	59,656					59,656
24	396000	WW Communication Equip	23,222					23,222
25	397000	WW Misc Equipment	13,207					13,207
26	398000	WW Other Tangible Equipment	1					1
27								
28		Less: Youngtown Plant	(96,727)					(96,727)
29								
30		Allocated From Corp to Districts (SLM-2)						
31	303600	Land & Land Rights AG	\$ -					\$ -
32	304510	Struct & Imp AG Cap Lease	-					-
33	304600	Struct & Imp Offices	-					-
34	304800	Struct & Imp Misc	-					-
35	304620	Struct & Imp Leasehold	27,697					27,697
36	3310001	Mains	-					-
37	339600	Other P/E CPS	7,234					7,234
38	340100	Office Furniture & Equip	161,494					161,494
39	340200	Comp & Periph Equip	70,145					70,145
40	340300	Computer Software	254,701					254,701
41	340330	Computer Software Other	6,549					6,549
42	340500	Other Office Equipment	-					-
43	341100	Trans Equip Lt Duty Trucks	-					-
44	343000	Tool Shop & Garage Equip	-					-
45	344000	Laboratory Equipment	-					-
46	345000	Power Operated Equipment	-					-
47	346100	Copmm Equip Non-Telephone	26,059					26,059
48	346200	Communication Equip Telephone	2,009					2,009
49	346300	Communication Equip Other	687					687
50	347000	Misc Equipment	-					-
51	380400	WW TD Equip Aux Eff Tmt	-					-
52	393000	WW Tool Shop & Garage Equip	-					-
53								
54		Rounding	2					2
55								
56		Total Plant in Service	24,469,337	(12,242)	-	-	-	24,457,095
57								
58		Accumulated Depreciation	10,761,769	-	-	-	-	10,761,769
59		Net Plant in Service (L58 - L 59)	\$ 13,707,568	\$ (12,242)	\$ -	\$ -	\$ -	\$ 13,695,326
60								
61		LESS:						
62		Contributions in Aid of Construction (CIAC)	\$ 18,920	-	\$ -	\$ -	\$ 3,743	\$ 22,663
63		Less: Accumulated Amortization	6,593	-	-	-	-	6,593
64		Net CIAC (L63 - L64)	12,327	-	-	-	3,743	16,070
65		Advances in Aid of Construction (AIAC)	2,660,292	-	-	-	-	2,660,292
66		Imputed Reg Advances	-	-	-	-	-	-
67		Imputed Reg CIAC	360,708	-	-	-	-	360,708
68		Accumulated Deferred Income Tax Credits	-	-	-	-	-	-
69		Customer Meter Deposits	-	-	-	-	-	-
70		ADD:						
71		Working Capital Allowance	129,827	-	(116,472)	-	-	13,355
72		Accumulated Deferred Income Tax Debits	1,824,256	-	-	(47,072)	-	1,777,184
73		Purchase Wastewater Treatment Charges	-	-	-	-	-	-
74		Material and Supplies Inventory	597	-	-	-	-	597
75		Prepayments	77,758	-	-	-	-	77,758
76		Projected Capital Expenditures	-	-	-	-	-	-
77		Deferred Debits	2,057,405	-	-	-	-	2,057,405
78		Rounding	3					3
79		Original Cost Rate Base	\$ 14,764,087	\$ (12,242)	\$ (116,472)	\$ (47,072)	\$ (3,743)	\$ 14,584,558

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule GTM-5

RATE BASE ADJUSTMENT # 1 - COMPREHENSIVE PLANNING STUDY COSTS

LINE	ACCT		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
<u>NO.</u>	<u>NO.</u>	<u>Description</u>			
1	389100	WW Oth Plt & Misc Equip Int	\$ 12,242	\$ (12,242)	\$ -

References:

Column [A]: Company Schedules

Column [B]: Per Testimony GTM

Column [C]: Column [A] less Column [B]

RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG DAYS	[E] DOLLAR DAYS
1	Labor	\$ 454,529	\$ (18,617)	435,912	12.00	\$ 5,230,944
2	Fuel & Power	15,804	2,746	18,550	20.75	384,835
3	Chemicals	4,885	(4,885)	-	20.35	-
4	Waste Disposal	3,300,475	73,539	3,374,014	43.73	147,562,165
5	Management Fees	933,155	(933,155)	-	14.77	-
6	Group Insurance	141,193	-	141,193	(13.67)	(1,930,292)
7	Pensions	75,595	(11,399)	64,196	(2.37)	(152,042)
8	Insurance Other Than Group	57,656	-	57,656	(83.68)	(4,824,908)
9	Customer Accounting	145,686	(82,998)	62,688	20.31	1,273,186
10	Rents	40,868	-	40,868	93.42	3,818,019
11	Miscellaneous	104,503	-	104,503	12.47	1,303,163
12	Maintenance Expense	61,533	-	61,533	29.75	1,830,379
13	Other Operating Expenses	94,627	-	94,627	30.00	2,838,810
14	Taxes Other Than Income-Property Taxes	157,456	(2,671)	154,785	189.67	29,358,060
15	Taxes Other Than Income-Other	34,880	-	34,880	13.35	465,515
16	Income Taxes	513,251	(128,180)	385,071	30.13	11,602,193
17	Interest	442,923	(5,386)	437,537	106.25	46,488,278
18	Total Operating Expenses	6,579,019	(1,111,007)	5,468,012	537.23	245,248,306
19						
20						
21	Expense Lag	Line 20, Col. (E) / Col [C]	44.85			
22	Revenue Lag	Company Workpapers	45.74			
23	Net Lag	Line 22 - 21	0.89			
24	Staff Adjusted Expenses	Line 20, Col C	5,468,012			
25	Staff - Cash Working Capital	Line 25 * Line 26/365 day	13,355			
26	Company As Filed	Co Schedule B-5	129,827			
27	Staff Adjustment	To GTM-4	(116,472)			
28						
29	References:					
30	Column [A]: Company Schedule C-1					
31	Column [B]: Staff adjustments to expenses, See Testimony GTM					
32	Column [C]: Column [A] + Column [B]					
33	Column [D]: Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372					
34	Column [E]: Column [C] * Column [D]					

**RATE BASE ADJUSTMENT # 3 - ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] STAFF ADJUSTMENTS		[C] STAFF AS ADJUSTED	
1	ADIT - total	\$	13,025,093	\$	(336,093)	\$	12,689,000
2	Allocation Factor		14.01%		14.01%		14.01%
3	ADIT allocated to this system		1,824,256		(47,072)		1,777,183

**REFERENCES:**

Columns [A], Line 1: Amounts used by Co as basis for allocation

Column [A], [B] & [C], Line 2: Allocation rate to this system

Column [C], Line 1: Allocable amount per audited financial statements times allocation rate

Column [A], [B] & [C], Line 3: Recalculated amounts

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Surrebuttal Schedule GTM - 8

RATE BASE ADJUSTMENT # 4 - CIAC ASSOCIATED WITH CWIP

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Contributions in Aid of Construction (CIAC)	18,920	3,743	22,663

REFERENCES:

Columns [A]: Company schedules

Column [B]: Column [C] less Column [A]

Column [C]: See testimony GTM

OPERATING INCOME STATEMENT TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 5,933,970	\$ -	\$ 5,933,970	\$ 1,618,574	\$ 7,552,544
3	Other Revenues	6,411	-	6,411	-	6,411
4	Other	-	-	-	-	-
5	Total Operating Revenues	\$ 5,940,381	\$ -	\$ 5,940,381	\$ 1,618,574	\$ 7,558,955
6						
7	Labor	\$ 454,529	\$ (18,617)	435,912	\$ -	\$ 435,912
8	Purchased Water	\$ -	-	-	-	-
9	Fuel & Power	\$ 15,804	2,746	18,550	-	18,550
10	Chemicals	\$ 4,885	-	4,885	-	4,885
11	Waste Disposal	\$ 3,300,475	73,539	3,374,014	-	3,374,014
12	Management Fees	\$ 933,155	(40,478)	892,677	-	892,677
13	Group Insurance	\$ 141,193	-	141,193	-	141,193
14	Pensions	\$ 75,595	(11,399)	64,196	-	64,196
15	Regulatory Expense	\$ 49,683	(9,406)	40,277	-	40,277
16	Insurance Other Than Group	\$ 57,656	-	57,656	-	57,656
17	Customer Accounting	\$ 145,686	(50,939)	94,747	2,104	96,851
18	Rents	\$ 40,868	-	40,868	-	40,868
19	General Office Expense	\$ 44,944	-	44,944	-	44,944
20	Miscellaneous	\$ 104,503	-	104,503	-	104,503
21	Maintenance Expense	\$ 61,533	-	61,533	-	61,533
22	Depreciation & Amortization	\$ 679,999	(123,927)	556,072	-	556,072
23	General Taxes-Property Taxes	\$ 157,456	(15,545)	141,911	12,874	154,785
24	General Taxes-Other	\$ 34,880	-	34,880	-	34,880
25	Income Taxes	\$ (310,869)	76,970	(233,899)	618,970	385,071
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	Total Operating Expenses	5,991,975	(117,057)	5,874,918	633,948	6,508,866
42	Operating Income (Loss)	\$ (51,594)	\$ 117,057	\$ 65,463	\$ 984,626	\$ 1,050,089

References:

Column (A): Company Schedule C-1  
Column (B): Schedule GTM 11  
Column (C): Column (A) + Column (B)  
Column (D): Schedules GTM 2, Lines 29 and 37  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Fuel & Power ADJ #1	(C) Customer Acctg ADJ #2	(D) Depreciation ADJ #3	(E) Property Taxes ADJ #4	(F) Income Taxes ADJ #5	(G) Regulatory Expense ADJ #6	(I) Labor ADJ #7	(J) Mgmt's fees ADJ #8	(K) Pension Exp. ADJ #9	(L) Glendale Wash ADJ #10	(H) STAFF ADJUSTED
1	Sewer Revenues	\$ 5,933,970											\$ 5,933,970
2	Other Revenues	6,411											\$ 6,411
3	Other												
4	Total Operating Revenues	\$ 5,940,381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,940,381
6	Labor	\$ 454,529											435,912
7	Purchased Water								\$ (18,617)				
8	Fuel & Power	15,804	2,746										18,550
9	Chemicals	4,885											4,885
10	Waste Disposal	3,300,475											3,374,014
11	Management Fees	933,155										73,539	892,677
12	Group Insurance	141,193											141,193
13	Pensions	75,595											64,196
14	Regulatory Expense	49,683									(11,399)		40,277
15	Insurance Other Than Group	57,656						(9,406)					57,656
16	Customer Accounting	145,686		(50,939)									94,747
17	Rents	40,868											40,868
18	General Office Expense	44,944											44,944
19	Miscellaneous	104,503											104,503
20	Maintenance Expense	61,533											61,533
21	Depreciation & Amortization	679,999											556,072
22	General Taxes-Property Taxes	157,456			(123,927)	(15,545)							141,911
23	General Taxes-Other	34,880											34,880
24	Income Taxes	(310,869)					76,970						(233,899)
25													
26													
27													
28													
29													
30													
31													
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42	Total Operating Expenses	\$ 5,991,975	\$ 2,746	\$ (50,939)	\$ (123,927)	\$ (15,545)	\$ 76,970	\$ (9,406)	\$ (18,617)	\$ (40,478)	\$ (11,399)	\$ 73,539	\$ 5,874,918
43	Operating Income (Loss)	\$ (51,594)	\$ (2,746)	\$ 50,939	\$ 123,927	\$ 15,545	\$ (76,970)	\$ 9,406	\$ 18,617	\$ 40,478	\$ 11,399	\$ (73,539)	\$ 65,463

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Surrebuttal Schedule GTM-12

**OPERATING INCOME ADJUSTMENT # 1 - FUEL & POWER**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
<u>1</u>	Actual Test Year Fuel & Power	\$ 15,804	2,746	\$ 18,550

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 2 - CUSTOMER ACCOUNTING (BAD DEBT)

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Uncollectible Accounts (Ordinary Activity)	\$ 85,102	\$ (77,545)	\$ 7,558
2	Uncollectible Accounts - MI (Misc Invoices)	\$ (26,673)	\$ 26,605	\$ (68)
3	Total Uncollectibles	<u>\$ 58,430</u>	<u>\$ (50,939)</u>	<u>\$ 7,490</u>
4				
5	Uncollectible Accounts (Ordinary Activity)	\$ 1,152,299		
6	Allocation Percentage-	7.39%		
7	Company Proposed Amount, See Attachment 1, Col C	<u>\$ 85,102</u>		
8				
9	Staff Adjusted Test Year Revenue GTM-10			\$ 5,940,381
10	3-year average Bad Debt Exp. Rate, Per Co.			0.13%
11	Staff Recommended Bad Debt Exp			<u>\$ 7,558</u>
12				
13	Adjustment for bad debt expense - ordinary activity		\$ (77,545)	
14				
15	Normalization of Uncollectible - Miscellaneous Invoices			
16				
17	2006			\$ 341,820
18	2007			\$ 16,584
19	2008			<u>\$ (361,154)</u>
20	3 year total			\$ (2,750)
21	3 year average			<u>\$ (917)</u>
22	2008 Test Year Total , Col [C], line 19	\$ (361,154)		
23	Allocation Percentage	<u>7.39%</u>		<u>7.39%</u>
24	Company proposed amount	<u>(26,673)</u>		<u>\$ (68)</u>
25	Adjustment to Normalize Uncollectible Misc. Invoices		<u>(26,605)</u>	
26	Net Adjusted Uncollectibles. Ordinary activity & MI		<u>(50,939)</u>	

References:

Column [A], Company Workpapers  
Column [B], line 13: Col. [C], line 11, less Col [A], line 7  
Column [B], line 26: Col. [C], line 25, less Col [A], line 25

RECONCILIATION OF SCHEDULE C-1, CUSTOMER ACCOUNTING TO SUPPORTING WORK  
to Supporting Workpapers

Note: CA means Customer Accounting, not California

Line No.		[A] AZ Corporate Total		[B] Sun City WW		[C] Sun City West WW		[D] Agua Fria WW		[E] Anthem WW		[F] Anthem/AF Comb	
		Recorded	Actual	Recorded	Actual	Recorded	Actual	Recorded	Actual	Recorded	Actual	Recorded	Actual
1	4 Factor Allocation Percentages used:												
2	P18 Customer Accounting												
3		\$ 46,423	\$ 3,503	\$ 86,939	\$ 2,964	\$ 73,565	\$ 3,049	\$ 75,675	\$ 2,887	\$ 66,884	\$ 5,735	\$ 142,359	\$ (44,618)
4		\$ (361,154)	\$ (27,248)	\$ (27,248)	\$ (23,057)	\$ (23,057)	\$ (23,718)	\$ (23,718)	\$ (20,900)	\$ (20,900)	\$ (20,900)	\$ (44,618)	\$ (44,618)
5		\$ 3,018	\$ 228	\$ 228	\$ 193	\$ 193	\$ 198	\$ 198	\$ 175	\$ 175	\$ 175	\$ 373	\$ 373
6		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9		\$ 161,225	\$ 12,164	\$ 12,164	\$ 10,293	\$ 10,293	\$ 10,588	\$ 10,588	\$ 9,330	\$ 9,330	\$ 9,330	\$ 19,918	\$ 19,918
10		\$ 21,336	\$ 1,610	\$ 1,610	\$ 1,362	\$ 1,362	\$ 1,401	\$ 1,401	\$ 1,235	\$ 1,235	\$ 1,235	\$ 2,636	\$ 2,636
11		\$ 11,301	\$ 853	\$ 853	\$ 721	\$ 721	\$ 742	\$ 742	\$ 854	\$ 854	\$ 854	\$ 1,396	\$ 1,396
12		\$ 223,097	\$ 16,832	\$ 16,832	\$ 14,243	\$ 14,243	\$ 14,551	\$ 14,551	\$ 12,911	\$ 12,911	\$ 12,911	\$ 27,562	\$ 27,562
13		\$ 26,411	\$ 1,993	\$ 1,993	\$ 1,686	\$ 1,686	\$ 1,734	\$ 1,734	\$ 1,528	\$ 1,528	\$ 1,528	\$ 3,263	\$ 3,263
14		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15		\$ 543,710	\$ 41,022	\$ 41,022	\$ 34,711	\$ 34,711	\$ 35,707	\$ 35,707	\$ 31,465	\$ 31,465	\$ 31,465	\$ 67,172	\$ 67,172
16		\$ 682	\$ 51	\$ 51	\$ 44	\$ 44	\$ 45	\$ 45	\$ 39	\$ 39	\$ 39	\$ 84	\$ 84
17		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18		\$ 46,102	\$ 3,478	\$ 3,478	\$ 2,943	\$ 2,943	\$ 3,028	\$ 3,028	\$ 2,668	\$ 2,668	\$ 2,668	\$ 5,696	\$ 5,696
19		\$ 24,724	\$ 1,865	\$ 1,865	\$ 1,578	\$ 1,578	\$ 1,624	\$ 1,624	\$ 1,431	\$ 1,431	\$ 1,431	\$ 3,055	\$ 3,055
20		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	P18 Customer Accounting	\$ 1,899,173	\$ 143,289	\$ 143,289	\$ 121,246	\$ 121,246	\$ 124,724.36	\$ 124,724.36	\$ 109,906.11	\$ 109,906.11	\$ 109,906.11	\$ 234,630.35	\$ 234,630.35
22	Total												
23	Amount Recorded Directly (Not Allocated)												
24	Total, as recalculated above.	\$ -	\$ 350	\$ 350	\$ 252	\$ 252	\$ 124,724	\$ 124,724	\$ 109,906	\$ 109,906	\$ 109,906	\$ 234,752	\$ 234,752
25		\$ -	\$ 143,639	\$ 143,639	\$ 121,498	\$ 121,498	\$ 124,724	\$ 124,724	\$ 109,906	\$ 109,906	\$ 109,906	\$ 234,752	\$ 234,752
26	Test Year Book Results, Customer Accounting	\$ -	\$ 143,639	\$ 143,639	\$ 121,498	\$ 121,498	\$ 124,724	\$ 124,724	\$ 109,906	\$ 109,906	\$ 109,906	\$ 234,752	\$ 234,752
27	Expense, Schedule C-1	\$ -	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)
28	Unreconciled Difference.	\$ -	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)

Sources:  
Columns [A]-[C], lines 1-21: From Company Workpaper,  
08 A of I-AZ Corp Summary w Pro Forms Distributed to Districts.xls

Columns [B], line 23: From Company Workpaper,  
Sun City WW AI 2008.xls

Columns [C], line 23: From Company Workpaper,  
Sun City West WW AI 2008.xls

Columns [C], line 23: From Company Workpaper,  
Sun City West WW AI 2008.xls

Columns [B] and [C], lines 26-27: Company's Application

OPERATING INCOME ADJUSTMENT # 3- DEPRECIATION EXPENSE

LINE NO.		DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Depreciation & Amortization	\$ 679,999	\$ (123,927)	\$ 556,072

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
2		<u>PLANT IN SERVICE:</u>	B-2, page 3		
3	351000	WWWOrganization	122,373	0.00%	-
4	352000	WW Franchises	6,132	0.00%	-
5	353200	WW Land & Ld Rights Coll	6,565	0.00%	-
6	354200	WW Struct & Imp Coll	187,017	2.50%	4,675
7	354500	WW Struct & Imp Gen	465,769	2.00%	9,315
8	355400	WW Power Gen Equip TDP	49,003	3.33%	1,632
9	360000	WW Collection Sewers Forced	2,397,611	2.07%	49,631
10	361100	WW Collecting Mains	16,050,734	2.03%	325,830
11	362000	WW Special Coll Struct	1,219,748	8.40%	102,459
12	363000	WW Service Sewer	2,680,127	2.04%	54,675
13	364000	WW Flow Measuring Devices	33,470	10.00%	3,347
14	371100	WW Pump Equip Elect	495,398	5.42%	26,851
15	380050	WW TD Equip Grit Removal	453	2.00%	9
16	380100	WW TD Equip Sed Tanks/Acc	2,575	2.00%	52
17	380600	WW TD Eauip Oth Disp	1,503	2.00%	30
18	380625	WW TD Eauip Gen Tmt	115,202	2.00%	2,304
19	380650	WW TD Equip Influent Lift S	178	2.00%	4
20	382000	WW Outfall Sewer Lines	291	2.00%	6
21	389100	WW Oth Plt & Misc Equip Int	10,495	4.98%	523
22	389600	WW Oth Plt & Misc Equip	-	4.98%	-
23	390000	WW Office Furniture & Equip	54,203	4.59%	2,488
24	391000	WW Trans Equipment	2,312	20.00%	462
25	393000	WW Tool Shop & Garage Equip	59,656	4.47%	2,667
26	396000	WW Communication Equip	23,222	10.28%	2,387
27	397000	WW Misc Equipment	13,207	5.10%	674
28	398000	WW Other Tangible Equipment	1	0.00%	-
29			-		-
30	Less:	Youngtown Plant	(96,727)		-
31					
32		<u>Allocated From Corp to Districts (SLM-2)</u>	B-2 page 4		
33	303600	Land & Land Rights AG	-	0.00%	-
34	304510	Struct & Imp AG Cap Lease	-	0.00%	-
35	304600	Struct & Imp Offices	-	0.00%	-
36	304800	Struct & Imp Misc	-	2.00%	-
37	304620	Struct & Imp Leasehold	27,697	14.28%	3,955
38	3310001	Mains	-		-
39	339600	Other P/E CPS	7,234	3.30%	239
40	340100	Office Furniture & Equip	161,494	4.04%	6,524
41	340200	Comp & Periph Equip	70,145	10.00%	7,015
42	340300	Computer Software	254,701	25.00%	63,675
43	340330	Computer Software Other	6,549	25.00%	1,637
44	340500	Other Office Equipment	-		-
45	341100	Trans Equip Lt Duty Trucks	-		-
46	343000	Tool Shop & Garage Equip	-		-
47	344000	Laboratory Equipment	-		-
48	345000	Power Operated Equipment	-		-
49	346100	Copmm Equip Non-Telephone	26,059	8.25%	2,150
50	346200	Communication Equip Telephone	2,009	8.25%	166
51	346300	Communication Equip Other	687	5.35%	37
52	347000	Misc Equipment	-		-
53	380400	WW TD Equip Aux Eff Tmt	-		-
54	393000	WW Tool Shop & Garage Equip	-		-
55					
56		Rounding	2		
57		Total Plant in Service	24,457,095	2.76%	675,416
58					
59					
60		Less Non Depreciable Plant			
61	351000	WWWOrganization	122,373	0.00%	-
62	353200	WW Land & Ld Rights Coll	6,565	0.00%	-
63	355400	WW Power Gen Equip TDP	49,003	0.00%	-
64					
65		Net Depreciable Plant and Depreciation Amounts	\$ 24,279,154		\$ 675,416
66		Composite Depreciation Rate		2.78%	
67		Less			
68		Amortization of Regulatory CIAC at Settlement Rate			118,714
69		Amortization of CIAC at Composite Rate	\$ 22,663		\$ 630
70		Staff Recommended Depreciation Expense			\$ 556,072
71		Company Proposed Depreciation Expense			679,999
72		Staff Adjustment			\$ (123,927)

	<u>References:</u>
Col A	Schedule GTM-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

OPERATING INCOME ADJUSTMENT # 4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 5,940,381	\$ 5,940,381
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	11,880,762	11,880,762
4	Staff Adjusted Test Year Revenues - 2008	5,940,381	
5	Staff Recommended Revenue		7,558,955
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	17,821,143	19,439,717
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	5,940,381	6,479,906
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	11,880,762	12,959,811
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	11,894,216	12,973,265
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	2,616,728	2,854,118
16	Composite Property Tax Rate - Obtained from ADOR	5.42%	5.42%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 141,911	
18	Company Proposed Property Tax	\$ 157,456	
19	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$ (15,545)</u>	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 154,785
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 141,911
22	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 12,874</u>
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 12,874
24	Increase in Revenue Requirement		\$ 1,618,574
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		0.79540%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 24  
Line 21: Line 19 - Line 20  
Line 23: Schedule GTM-1, Line 8

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule GTM-16

OPERATING INCOME ADJUSTMENT # 5 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ (310,869)</u>	<u>\$ 76,970</u>	<u>\$ (233,899)</u>

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule GTM-17

OPERATING INCOME ADJUSTMENT # 6 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	<u>\$ 49,683</u>	<u>\$ (9,406)</u>	<u>\$ 40,277</u>

References:

Column (A), Company Schedule C-2 , p 16  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 7 - ACCEPTING RUCO ADJUSTMENTS

LINE	ACCT		[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
NO.	NO.	DESCRIPTION			
1		Labor - AIP Adjustment	\$ 454,529	(10,772)	\$ 443,757
2		Labor - Stock Comp Adj	443,757	(7,845)	435,912
3		Total Labor Adjustment		<u>(18,617)</u>	
4					
5		Management Fees - AIP Adj	\$ 933,155	(12,150)	\$ 921,005
6		Management Fees - Stock Comp Adj	921,005	(5,249)	915,756
7		Management Fees - other expenses adj	915,756	(12,855)	902,901
8		Management Fees - BD expense	902,901	(7,605)	895,296
9		Management Fees - Dues & Donations	\$ 895,296	(2,619)	\$ 892,677
		Total Management Fees Adjustment		<u>(40,478)</u>	
		Pensions	\$ 75,595	11,399	\$ 86,994

References:

Column (A), Company Schedule

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WASTEWATER  
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Surrebuttal Schedule GTM-19

OPERATING INCOME ADJUSTMENT # 8 - GLENDALE WASTE DISPOSAL EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Waste Disposal	3300475	\$ 73,539	\$ 3,374,014

References:

Column (A): Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

**ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER**

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Test Year Ended December 31, 2008

**DIRECT TESTIMONY OF GARY T. MCMURRY**

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GTM- 2	GROSS REVENUE CONVERSION FACTOR
GTM- 3	RATE BASE - ORIGINAL COST
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GTM- 5	RATE BASE ADJUSTMENT # 1 - NW VALLEY REGIONAL TREATMENT FACILITY (NWVRTF) ADJ.
GTM- 6	RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL
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GTM- 8	RATE BASE ADJUSTMENT # 4 - COMPREHENSIVE STUDY PLANNING COST
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GTM- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
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GTM- 14	OPERATING INCOME ADJUSTMENT # 3 - CUSTOMER ACCOUNTING (BAD DEBT) EXPENSE
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GTM- 15	OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING
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GTM- 18	OPERATING INCOME ADJUSTMENT # 7 - INCOME TAXES
GTM- 19	OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE
GTM- 20	OPERATING INCOME ADJUSTMENT # 9 - ACCEPTING RUCO ADJUSTMENTS

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
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Surrebuttal Schedule GTM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 17,821,339	\$ 17,821,339	\$ 18,097,843	\$ 18,097,843
2	Adjusted Operating Income (Loss)	\$ 618,443	\$ 618,443	\$ 410,534	\$ 410,534
3	Current Rate of Return (L2 / L1)	3.47%	3.47%	2.27%	2.27%
4	Required Rate of Return	8.53%	8.53%	7.20%	7.20%
5	Required Operating Income (L4 * L1)	\$ 1,520,160	\$ 1,520,160	\$ 1,303,045	\$ 1,303,045
6	Operating Income Deficiency (L5 - L2)	\$ 901,717	\$ 901,717	\$ 892,511	\$ 892,511
7	Gross Revenue Conversion Factor	1.6422	1.6422	1.6422	1.6422
8	Required Revenue Increase (L7 * L6)	\$ 1,480,765	\$ 1,480,765	<b>\$ 1,465,672</b>	<b>\$ 1,465,672</b>
9	Adjusted Test Year Revenue	\$ 5,661,710	\$ 5,661,710	\$ 5,661,710	\$ 5,661,710
10	Proposed Annual Revenue (L8 + L9)	\$ 7,142,475	\$ 7,142,475	\$ 7,127,382	\$ 7,127,382
11	Required Increase in Revenue (%)	26.15%	26.15%	25.89%	25.89%
12	Rate of Return on Common Equity (%)	12.25%	12.25%	10.20%	10.20%

References:

Column (A): Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GTM-2, GTM-3, and GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
----------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.0184%
3	Revenues (L1 - L2)	99.9816%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0873%
5	Subtotal (L3 - L4)	60.8943%
6	Revenue Conversion Factor (L1 / L5)	1.642189

Calculation of Uncollectible Factor:

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.0300%
11	Uncollectible Factor (L9 * L10)	0.0184%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-16, L24)	0.7954%
22	Effective Property Tax Factor (L20*L21)	0.4884%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	39.0873%

24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 1,303,045
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 42)	\$ 410,534
26	Required Increase in Operating Income (L24 - L25)	\$ 892,511
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 477,832
28	Income Taxes on Test Year Revenue (Col. (A), L52)	\$ (83,232)
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 561,064
30	Required Revenue Increase (Schedule GTM-1, Line 8)	\$ 1,465,672
31	Uncollectible Rate (Line 10)	0.0300%
32	Required Increase in Revenue to Provide for Uncollectible Exp. (L30 * L31)	\$ 440
33	Property Tax with Recommended Revenue (GTM-15, Col B, L20)	\$ 146,919
34	Property Tax on Test Year Revenue (GTM-15, Col A, L17)	\$ 135,261
35	Increase in Property Tax Due to Increase in Revenue (L33-L34)	\$ 11,658
36	Total Required Increase in Revenue (L26 + L29 + L32 + L35)	\$ 1,465,672

Calculation of Income Tax:

37	Revenue (Sch GTM-10, Col.(C) L5, GTM-1, Col. (D), L9)	\$ 5,661,710
38	Operating Expenses Excluding Income Taxes	\$ 5,334,408
39	Synchronized Interest (L54)	\$ 542,935
40	Arizona Taxable Income (L37 - L38 - L39)	\$ (215,634)
41	Arizona State Income Tax Rate	6.9680%
42	Arizona Income Tax (L40 x L41)	\$ (15,025)
43	Federal Taxable Income (L40 - L42)	\$ (200,608)
44	Total Federal Income Tax	\$ (68,207)
45	Combined Federal and State Income Tax (L42 + L44)	\$ (83,232)

46 Effective Tax Rate

34.0000%

Calculation of Interest Synchronization:

47	Rate Base (Schedule GTM-3, Col. (C), Line 17)	\$ 18,097,843
48	Weighted Average Cost of Debt	3.0000%
49	Synchronized Interest (L47 X L48)	\$ 542,935

(A)

Test Year	
Sun City WestWW	
\$	5,661,710
\$	5,334,408
\$	542,935
\$	(215,634)
\$	6.9680%
\$	(15,025)
\$	(200,608)
\$	(68,207)
\$	(83,232)

(B)

Staff Recommended	
Sun City West WW	
\$	7,127,382
\$	5,346,506
\$	542,935
\$	1,237,942
\$	6.9680%
\$	86,260
\$	1,151,682
\$	391,572
\$	477,832

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 35,931,696	\$ 1,052,065	\$ 36,983,761
2 Less: Accumulated Depreciation	19,183,739	630,244	19,813,983
3 Net Plant in Service	<u>\$ 16,747,957</u>	<u>\$ 421,821</u>	<u>\$ 17,169,778</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 5,122	\$ -	\$ 5,122
5 Less: Accumulated Amortization	(375)	-	(375)
6 Net CIAC	<u>4,747</u>	<u>-</u>	<u>4,747</u>
7 Advances in Aid of Construction (AIAC)	145,453		145,453
8 Imputed Reg AIAC	-	-	-
9 Imputed Reg CIAC	443,212	-	443,212
10 Accumulated Deferred Income Tax Credits Customer Meter Deposits	-		-
<u>ADD:</u>			
11 Cash Working Capital	229,465	(113,240)	116,225
12 Accumulated Deferred Income Tax Debits	1,243,135	(32,077)	1,211,058
13 Supplies Inventory	32,436	-	32,436
14 Prepayments	52,988	-	52,988
15 Deferred Debits	108,771	-	108,771
16 Purchase Wastewater Treatment Charges	-		-
Rounding	(1)		(1)
17 Original Cost Rate Base	<u>\$ 17,821,339</u>	<u>\$ 276,504</u>	<u>\$ 18,097,843</u>

References:

Column (A), Company Schedule B-2  
Column (B): Schedule GTM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	NWWRTF Cost Allocation		Working Capital	Deferred Income Taxes	Comprehensive Study Costs	Accumulated Depreciation	STAFF ADJUSTED
			[A] COMPANY AS FILED	[B] ADJ #1					
					[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] ADJ #6
<b>PLANT IN SERVICE:</b>									
1	351000	WWW Organization	\$ 4,078						\$ 4,078
2	352000	WW Franchises	68						68
3	353200	WW Land & Ld Rights Coll	-						-
4	354200	WW Struct & Imp Coll	130,873						130,873
5	354500	WW Struct & Imp Gen	48,870						48,870
6	355300	WW Power Gen Equip SPP	25,840						25,840
7	355400	WW Power Gen Equip TDP	-						-
8	360000	WW Collection Sewers Forced	752,939				12,242		765,181
9	361100	WW Collecting Mains	13,101,343						13,101,343
10	362000	WW Special Coll Struct	963,907						963,907
11	363000	WW Service Sewer	2,641,009						2,641,009
12	364000	WW Flow Measuring Devices	-						-
13	371100	WW Pump Equip Elect	27,605						27,605
14	380050	WW TD Equip Grit Removal	-						-
15	380100	WW TD Equip Sed Tanks/Acc	7,615						7,615
16	380600	WW TD Equip Oth Disp	5,634						5,634
17	380625	WW TD Equip Gen Tmt	110,053						110,053
18	380650	WW TD Equip Influent Lift S	19,530						19,530
19	382000	WW Outfall Sewer Lines	-						-
20	389100	WW Oth Plt & Misc Equip Int	-						-
21	389600	WW Oth Plt & Misc Equip	-						-
22	390000	WW Office Furniture & Equip	-						-
23	391000	WW Trans Equipment	-						-
24	393000	WW Tool Shop & Garage Equip	-						-
25	395000	WW Power Operated Equip	777						777
26	396000	WW Communication Equip	12,621						12,621
27	397000	WW Misc Equipment	22,663						22,663
28	398000	WW Other Tangible Equipment	-						-
29									
30	Allocated From Corp to Districts (SLM-2)								
31	303600	Land & Land Rights AG	\$ -						\$ -
32	304510	Struct & Imp AG Cap Lease	-						-
33	304600	Struct & Imp Offices	-						-
34	304800	Struct & Imp Misc	-						-
35	304620	Struct & Imp Leasehold	18,874						18,874
36	3310001	Mains	-						-
37	339600	Other P/E CPS	4,930						4,930
38	340100	Office Furniture & Equip	110,050						110,050
39	340200	Comp & Periph Equip	47,801						47,801
40	340300	Computer Software	173,566						173,566
41	340330	Computer Software Other	4,463						4,463
42	340500	Other Office Equipment	-						-
43	341100	Trans Equip Lt Duty Trucks	-						-
44	343000	Tool Shop & Garage Equip	-						-
45	344000	Laboratory Equipment	-						-
46	345000	Power Operated Equipment	-						-
47	346100	Comm Equip Non-Telephone	17,760						17,760
48	346200	Communication Equip Telephone	1,369						1,369
49	346300	Communication Equip Other	468						468
50	347000	Misc Equipment	-						-
51	380400	WW TD Equip Aux Eff Tmt	-						-
52	393000	WW Tool Shop & Garage Equip	-						-
53									
54	North West Valley Treat Plant (NWWRTF) B-2 p 9								
55	352000	WW Franchises	887	52					939
56	353200	WW Land & Ld Rights Coll	307,913	18,113					326,026
57	353500	WW Land & Ld Rights Gen	14,108	830					14,938
58	354200	WW Struct & Imp Coll	1,871,614	110,095					1,981,709
59	354300	WW Struct & Imp SPP	658,418	38,730					697,148
60	354400	WW Struct & Imp TDP	-	-					-
61	354500	WW Struct & Imp Gen	1,086,830	63,931					1,150,761
62	355200	WW Power Gen Equip Col	5,407	318					5,725
63	355300	WW Power Gen Equip SPP	-	-					-
64	360000	WW Collection Sewers Forced	-	-					-
65	361100	WW Collecting Mains	74,660	4,392					79,052
66	362000	WW Special Coll Struct	352,131	20,714					372,845
67	363000	WW Service Sewer	17,606	1,036					18,642
68	364000	WW Flow Measuring Devices	3,739	220					3,959
69	370000	WW Receiving Wells	-	-					-
70	371100	WW Pump Equip Elect	275,127	16,184					291,311
71	371200	WW Pump Equip Other	252	15					267
72	380000	WW TD Equipment	1,432,178	84,246					1,516,424
73	380050	WW TD Equip Grit Removal	749,658	44,098					793,756
74	380100	WW TD Equip Sed Tanks/Acc	3,650,565	214,739					3,865,304
75	380200	WW TD Equip Sldge/Effl Rmv	35,551	2,091					37,642
76	380250	WW TD Equip Sldge Dig Trk	48,656	2,862					51,518
77	380300	WW TD Equip Sldge Dry/Fitt	4,100,656	241,227					4,342,083
78	380350	WW TD Equip Sec Trmt Fitt	17,384	1,023					18,407
79	380400	WW TD Equip Aux Effl Trmt	873,055	51,356					924,411
80	380500	WW TD Equip Chem Trmt Plant	1,379	81					1,460
81	380600	WW TD Equip Oth Disp	706,938	41,585					748,523
82	380625	WW TD Equip Gen Trmt	538,528	31,678					570,206

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS			NWVRTF Cost Allocation	Working Capital	Deferred Income Taxes	Comprehensive Study Costs	Accumulated Depreciation		
LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[E] ADJ #5	[F] STAFF ADJUSTED
83	380650	WW TD Equip Influent Lift S	48,971	2,881					51,852
84	381000	WW Plant Sewers	11,159	656					11,815
85	382000	WW Outfall Sewer Lines	79,832	4,696					84,528
86	389100	WW Oth Plt & Misc Equip Int	13,168	775					13,943
87	389600	WW Oth Plt & Misc Equip	-	-					-
88	390000	WW Office Furniture & Equip	114,284	6,723					121,007
89	390200	WW Computer & Perphials	13,704	806					14,510
90	390300	WW Computer Software	42,823	2,519					45,342
91	391000	WW Trans Equip	162,863	9,580					172,443
92	392000	WW Stores Equip	7,663	451					8,114
93	393000	WW Tool Shop & Garage Equip	84,476	4,969					89,445
94	394000	WW Laboratory Equipment	67,116	3,948					71,064
95	395000	WW Power Operated Equipment	8,809	518					9,327
96	396000	WW Comm Equip	151,095	8,888					159,983
97	397000	WW Misc Equip	47,591	2,799					50,390
98	398000	WW Other Tangible Plant	-	-					-
99		Rounding	(4)						(4)
100									
101		Total Plant in Service	35,931,696	1,039,823	-	-	12,242	-	36,983,761
102									
103		Accumulated Depreciation	19,183,739	-			-	630,244	19,813,983
104		Net Plant in Service (L58 - L 59)	\$ 16,747,957	\$ 1,039,823	\$ -	\$ -	\$ 12,242	\$ (630,244)	\$ 17,169,777
105									
106		LESS:							
107		Contributions in Aid of Construction (CIAC)	\$ 5,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,122
108		Less: Accumulated Amortization	\$ (375)	-	-	-	-	-	(375)
109		Net CIAC (L63 - L64)	4,747	-	-	-	-	-	4,747
110		Advances in Aid of Construction (AIAC)	145,453	-	-	-	-	-	145,453
111		Imputed Reg Advances	-	-	-	-	-	-	-
112		Imputed Reg CIAC	443,212	-	-	-	-	-	443,212
113		Deferred Income Tax Credits	-	-	-	-	-	-	-
114		Customer Meter Deposits	-	-	-	-	-	-	-
115									
116		ADD:							
117		Working Capital Allowance	229,465	-	(113,240)	-	-	-	116,225
118		Deferred Income Tax Debits	1,243,135	-	-	(32,077)	-	-	1,211,058
119		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-
120		Material and Supplies Inventory	32,436	-	-	-	-	-	32,436
121		Prepayments	52,988	-	-	-	-	-	52,988
122		Projected Capital Expenditures	-	-	-	-	-	-	-
123		Deferred Debits	108,771	-	-	-	-	-	108,771
124		Rounding	(1)	-	-	-	-	-	(1)
125		Original Cost Rate Base	\$ 17,821,339	\$ 1,039,823	\$ (113,240)	\$ (32,077)	\$ 12,242	\$ (630,244)	\$ 18,097,842

RATE BASE ADJUSTMENT # 1 - NW VALLEY REGIONAL TREATMENT FACILITY (NWWRTF) ADJ.

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
352000	WW Franchises		887	52	939
353200	WW Land & Ld Rights Coll		307,913	18,113	326,026
353500	WW Land & Ld Rights Gen		14,108	830	14,938
354200	WW Struct & Imp Coll		1,871,614	110,095	1,981,709
354300	WW Struct & Imp SPP		658,418	38,730	697,148
354400	WW Struct & Imp TDP		-	-	-
354500	WW Struct & Imp Gen		1,086,830	63,931	1,150,761
355200	WW Power Gen Equip Col		5,407	318	5,725
355300	WW Power Gen Equip SPP		-	-	-
360000	WW Collection Sewers Forced		-	-	-
361100	WW Collecting Mains		74,660	4,392	79,052
362000	WW Special Coll Struct		352,131	20,714	372,845
363000	WW Service Sewer		17,606	1,036	18,642
364000	WW Flow Measuring Devices		3,739	220	3,959
370000	WW Receiving Wells		-	-	-
371100	WW Pump Equip Elect		275,127	16,184	291,311
371200	WW Pump Equip Other		252	15	267
380000	WW TD Equipment		1,432,178	84,246	1,516,424
380050	WW TD Equip Grit Removal		749,658	44,098	793,756
380100	WW TD Equip Sed Tanks/Acc		3,650,565	214,739	3,865,304
380200	WW TD Equip Sludge/Effl Rmv		35,551	2,091	37,642
380250	WW TD Equip Sludge Dig Tnk		48,656	2,862	51,518
380300	WW TD Equip Sludge Dry/Filt		4,100,856	241,227	4,342,083
380350	WW TD Equip Sec Trmt Filt		17,384	1,023	18,407
380400	WW TD Equip Aux Effl Trmt		873,055	51,356	924,411
380500	WW TD Equip Chem Trmt Plant		1,379	81	1,460
380600	WW TD Equip Oth Disp		706,938	41,585	748,523
380625	WW TD Equip Gen Trmt		538,528	31,678	570,206
380650	WW TD Equip Influent Lift S		48,971	2,881	51,852
381000	WW Plant Sewers		11,159	656	11,815
382000	WW Outfall Sewer Lines		79,832	4,696	84,528
389100	WW Oth Plt & Misc Equip Int		13,168	775	13,943
389600	WW Oth Plt & Misc Equip		-	-	-
390000	WW Office Furniture & Equip		114,284	6,723	121,007
390200	WW Computer & Peripherals		13,704	806	14,510
390300	WW Computer Software		42,823	2,519	45,342
391000	WW Trans Equip		162,863	9,580	172,443
392000	WW Stores Equip		7,663	451	8,114
393000	WW Tool Shop & Garage Equip		84,476	4,969	89,445
394000	WW Laboratory Equipment		67,116	3,948	71,064
395000	WW Power Operated Equipment		8,809	518	9,327
396000	WW Comm Equip		151,095	8,888	159,983
397000	WW Misc Equip		47,591	2,799	50,390
398000	WW Other Tangible Plant		-	-	-
			17,676,994	1,039,823	18,716,817
<u>Cost Allocation Percentage</u>			Old	New	
Sun City West			68%	72%	
Anthem Agua Fria			32%	28%	

References:

Column [A]: Amounts included in plant balances per filing.  
Column [B]: Per Testimony GTM  
Column [C]: Column [A] less Column [B]

RATE BASE ADJUSTMENT # 2 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG FACTOR	[E] DOLLAR DAYS
1	Labor	\$ 766,759	\$ (3,492)	763,267	12.00	\$ 9,159,206
2	Purchased Water	\$ 7,156	1,878	9,034	52.52	\$ 474,465
3	Fuel & Power	\$ 385,512	265,325	650,837	23.18	\$ 15,088,410
4	Chemicals	\$ 401,682	(401,682)	-	17.28	\$ -
5	Waste Disposal	\$ 103,272	-	103,272	19.93	\$ 2,058,438
6	Management Fees	\$ 789,604	(789,604)	-	14.77	\$ -
7	Group Insurance	\$ 267,064	54	267,118	(13.62)	\$ (3,636,919)
8	Pensions	\$ 150,285	9,646	159,931	(2.37)	\$ (378,781)
9	Insurance Other Than Group	\$ 48,786	-	48,786	(83.68)	\$ (4,082,627)
10	Customer Accounting	\$ 123,968	(56,772)	67,196	20.31	\$ 1,364,760
11	Rents	\$ 38,079	883	38,962	72.11	\$ 2,809,574
12	Miscellaneous	\$ 243,174	17,501	260,675	9.91	\$ 2,582,607
13	Maintenance Expense	\$ 138,620	6,143	144,763	26.14	\$ 3,783,488
14	Other Operating Expenses	\$ 93,744	-	93,744	30.00	\$ 2,812,320
15	Taxes					
16	Taxes Other Than Income-Property Taxes	\$ 135,172	11,747	146,919	187.98	\$ 27,618,449
17	Taxes Other Than Income-Other	\$ 58,909	-	58,909	13.35	\$ 786,211
18	Income Taxes	\$ 52,682	425,150	477,832	30.13	\$ 14,397,066
19	Interest Sync	534,640	8,295	542,935	106.25	57,686,874
20	<b>Total Operating Expenses</b>	<b>4,339,108</b>	<b>(504,929)</b>	<b>3,834,179</b>	<b>536.2</b>	<b>132,523,543</b>
21						
22						
23	Expense Lag	Line 20, Col. (E) / Col [C]	34.56			
24	Revenue Lag	Company Workpapers	45.63			
25	Net Lag	Line 24 - 23	11.06			
26	Staff Adjusted Expenses	Line 20, Col C	3,834,179			
27	Staff - Cash Working Capital	Line 25 * Line 26/365 day	116,225			
28	Company As Filed	Co Schedule B-5	229,465			
29	Staff Adjustment	To GTM-4	(113,240)			
30						
31	References:					
32	Column [A]: Company Schedule C-1					
33	Column [B]: Staff adjustments to expenses, See Testimony GTM					
34	Column [C]: Column [A] + Column [B]					
35	Column [D]: Expense Lags Used on Docket WS-01303A-06-0403, approved in Decision No. 70372					
36	Column [E]: Column [C] * Column [D]					

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
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Test Year Ended December 31, 2008

Surrebuttal Schedule GTM- 7

RATE BASE ADJUSTMENT # 3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	ADIT - total	\$ 13,025,093	\$ (336,093)	\$ 12,689,000
2	Allocation Factor	9.54%	9.54%	9.54%
3	ADIT allocated to this system	1,243,135	(32,077)	1,211,058

REFERENCES:

Columns [A], Line 1: Amounts used by Co as basis for allocation

Column [A], [B] & [C], Line 2: Allocation rate to this system

Column [C], Line 1: Allocable amount per audited financial statements times allocation rate

Column [A], [B] & [C], Line 3: Recalculated amounts

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Surrebuttal Schedule GTM - 8

RATE BASE ADJUSTMENT # 4 - COMPREHENSIVE STUDY PLANNING COST

LINE NO.	DESCRIPTION		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	WW Collection Sewers Forced	360000	\$ 752,939	\$ 12,242	\$ 765,181

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
Docket No. WS-01303A-09-0343  
Test Year Ended December 31, 2008

Surrebuttal Schedule GTM - 9

RATE BASE ADJUSTMENT # 5 - ACCUMULATED DEPRECIATION (NWWRTF)

LINE		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
NO.	DESCRIPTION			
1	Accumulated Depreciation	\$ 8,469,585	\$ -	\$ 8,469,585
	Accum Depreciaton - NWWRTF	10,714,154	630,244	11,344,398
	Total Accumulated Depreciation	<u>\$ 19,183,739</u>	<u>\$ 630,244</u>	<u>\$ 19,813,983</u>

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1						
2	Sewer Revenues	\$ 5,660,389	\$ -	\$ 5,660,389	\$ 1,465,672	\$ 7,126,061
3	Other Revenues	1,321	-	1,321	-	1,321
4	Other	-	-	-	-	-
5	<b>Total Operating Revenues</b>	<b>\$ 5,661,710</b>	<b>\$ -</b>	<b>\$ 5,661,710</b>	<b>\$ 1,465,672</b>	<b>\$ 7,127,382</b>
6						
7	Labor	\$ 766,759	\$ (3,492)	763,267	\$ -	\$ 763,267
8	Purchased Water	\$ 7,156	1,878	9,034	-	9,034
9	Fuel & Power	\$ 385,512	265,325	650,837	-	650,837
10	Chemicals	\$ 401,682	74,553	476,235	-	476,235
11	Waste Disposal	\$ 103,272	-	103,272	-	103,272
12	Management Fees	\$ 789,604	(28,198)	761,406	-	761,406
13	Group Insurance	\$ 267,064	54	267,118	-	267,118
14	Pensions	\$ 150,285	9,646	159,931	-	159,931
15	Regulatory Expense	\$ 43,794	(9,406)	34,388	-	34,388
16	Insurance Other Than Group	\$ 48,786	-	48,786	-	48,786
17	Customer Accounting	\$ 123,968	(55,675)	68,293	440	68,732
18	Rents	\$ 38,079	883	38,962	-	38,962
19	General Office Expense	\$ 49,950	393	50,343	-	50,343
20	Miscellaneous	\$ 243,174	17,501	260,675	-	260,675
21	Maintenance Expense	\$ 138,620	6,143	144,763	-	144,763
22	Depreciation & Amortization	\$ 1,238,799	64,131	1,302,930	-	1,302,930
23	General Taxes-Property Taxes	\$ 135,172	89	135,261	11,658	146,919
24	General Taxes-Other	\$ 58,909	-	58,909	-	58,909
25	Income Taxes	\$ 52,682	(135,914)	(83,232)	561,064	477,832
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41	<b>Total Operating Expenses</b>	<b>5,043,267</b>	<b>207,909</b>	<b>5,251,176</b>	<b>573,161</b>	<b>5,824,338</b>
42	<b>Operating Income (Loss)</b>	<b>\$ 618,443</b>	<b>\$ (207,909)</b>	<b>\$ 410,534</b>	<b>\$ 892,511</b>	<b>\$ 1,303,044</b>

References:

Column (A): Company Schedule C-1  
Column (B): Schedule GTM 11  
Column (C): Column (A) + Column (B)  
Column (D): Schedules GTM 2, Lines 29 and 37  
Column (E): Column (C) + Column (D)

## RIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

ocket No. WS-01303A-09-0343

est Year Ended December 31, 2008

## SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) NWVRTF ADJ #1	(C) Fuels & Power ADJ #3	(D) Bad Debt ADJ #4	(E) Water Testing ADJ #5	(F) Depreciation ADJ #6	(G) Property Taxes ADJ #7	(H) Income Taxes ADJ #8	(I) Regulatory Expense ADJ #9	(J) Mgmt Fee ADJ #9	(K) Pension Exp. ADJ #9	(L) STAFF ADJUSTED
1	Sewer Revenues	\$ 5,660,389											
2	Other Revenues	1,321											
3	Other												
4	Total Operating Revenues	\$ 5,661,710											\$ 5,661,710
5													
6													
7	Labor	\$ 766,759	17,587										763,267
8	Purchased Water	7,156	1,878										9,034
9	Fuel & Power	385,512	117,810	147,515									650,837
10	Chemicals	401,882	74,553										476,235
11	Waste Disposal	103,272											103,272
12	Management Fees	789,604	6,054										795,658
13	Group Insurance	267,064	54										267,118
14	Perishables	150,285											150,285
15	Regulatory Expense	43,794											43,794
16	Insurance Other Than Group	48,786											48,786
17	Customer Accounting	123,968											123,968
18	Rents	38,079	883										38,962
19	General Office Expense	49,950	383										50,333
20	Miscellaneous	243,174	8,000										251,174
21	Maintenance Expense	138,620	6,143										144,763
22	Depreciation & Amortization	1,238,799											1,238,799
23	General Taxes-Property Taxes	135,172											135,172
24	General Taxes-Other	58,909											58,909
25	Income Taxes	52,692											52,692
26													
27													
28													
29													
30													
31													
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42	Total Operating Expenses	\$ 5,043,267	\$ 233,354	\$ 147,515	\$ (55,675)	\$ 9,501	\$ (64,131)	\$ (89)	\$ (135,914)	\$ (9,406)	\$ (34,252)	\$ (9,646)	\$ 5,251,176
43	Operating Income (Loss)	\$ 618,443	\$ (233,354)	\$ (147,515)	\$ 55,675	\$ (9,501)	\$ (64,131)	\$ (89)	\$ (135,914)	\$ (9,406)	\$ (34,252)	\$ (9,646)	\$ 410,534

OPERATING INCOME ADJUSTMENT # 1 - NWWRTF OPERATING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]
1	Operating expenses	<u>\$ 1,232,282</u>	<u>\$ 233,354</u>	<u>\$ 1,465,635</u>	<u>Difference</u>
		Total Costs of NWWRTF	Company Proposed 68%	Staff Recommended 72%	Difference
2	Labor	\$ 439,680	\$ 298,982	\$ 316,570	\$ 17,587
3	Purchased Water	46,939	31,919	33,796	1,878
4	Fuel & Power (a)	373,211	253,783	371,593 (c)	117,810
5	Chemicals (a)	414,181	281,643	356,196	74,553
6	Waste Disposal	-	-	-	-
7	Management Fees	151,361	102,925	108,980	6,054
8	Group Insurance	1,351	919	973	54
9	Pensions	-	-	-	-
10	Regulatory Expense	-	-	-	-
11	Insurance Other Than Group	-	-	-	-
12	Customer Accounting	-	-	-	-
13	Rents	22,082	15,016	15,899	883
14	General Office Expense	9,819	6,677	7,070	393
15	Miscellaneous	199,988	135,992	143,991	8,000
16	Maintenance Expense	153,567	104,426	110,568	6,143
17	Depreciation & Amortization	1,176,113	(b)	(b)	(b)
18	General Taxes-Property Taxes	186,526	(b)	(b)	(b)
19	General Taxes-Other	-	-	-	-
20	Income Taxes	-	-	-	-
21					
22					
23		<u>\$ 3,174,818</u>	<u>\$ 1,232,282</u>	<u>\$ 1,465,635</u>	<u>\$ 233,354</u>
24					
25	(a) Variable cost allocation: Anthem Aqua Fria (14%) and Sun City West (86%)				
26	(b) Depreciation and Property Taxes Separately Reviewed				
27	(c) Staff recommended for NWWRTF based on revised APS annualization: (\$432,085 * 14%)				
28		Current	Future		
29	<u>Cost Allocation</u>	<u>Capacity</u>	<u>Growth</u>		
30	Anthem Agua Fria	14%	28%		
31	Sun City West	86%	72%		

OPERATING INCOME ADJUSTMENT # 2 - FUEL & POWER EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Fuel & Power - All Other	\$ 12,301	147,515	\$ 159,816
2	Total Company Proposed Fuel and Power	\$ 385,512		
3	Less: Company Proposed Fuel and Power - NWWRTF	\$ 373,211		
4	Company Proposed Fuel and Power - All Other			\$ 12,301
5				
6	Total Staff Recommended		\$ 531,409	
7	Total Staff NWWRTF	\$ 432,085		
8	Staff NWWRTF Allocation Factor	86%		
9	Less: Staff Recommended for NWWRTF		\$ 371,593	
10	Staff Recommended for All Other			\$ 159,816
11	Staff Adjustment - Fuel and Power - All Other			\$ 147,515

**OPERATING INCOME ADJUSTMENT # 3 - CUSTOMER ACCOUNTING (BAD DEBT) EXPENSE**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Uncollectible Accounts (Ordinary Activity)	\$ 83,328	\$ (81,726)	\$ 1,602
2	Uncollectible Accounts - MI (Misc Invoices)	\$ (26,117)	\$ 26,050	\$ (66)
3	Total Uncollectibles	<u>\$ 57,211</u>	<u>\$ (55,675)</u>	<u>\$ 1,536</u>
4				
5	Uncollectible Accounts (ordinary activity)	\$ 1,152,299		
6	Allocation Percentage-	7.23%		
7	Company proposed amount	<u>\$ 83,328</u>		
8				
9	Staff Adjusted Test Year Revenue GTM-10			\$ 5,661,710
10	3 year average Bad Debt Exp. Rate, Per Co.			0.03%
11	Staff Recommended Bad Debt Expense			<u>\$ 1,602</u>
12				
13	Adjustment for Bad Debt Expense		\$ (81,726)	
14				
15	<b>Normalization of Uncollectible Accounts- Miscellaneous Invoices</b>			
16				
17	2006			\$ 341,820
18	2007			\$ 16,584
19	2008			<u>\$ (361,154)</u>
20	3 year total			\$ (2,750)
21	3 year average			\$ (917)
22	2008 Test Year Total. Col [C], line 19	\$ (361,154)		
23	Allocation Percentage	<u>7.23%</u>		<u>7.23%</u>
24	Company proposed amount	<u>(26,117)</u>		<u>\$ (66)</u>
25	Adjustment for uncollectibles - MI		(26,050)	
26	Net Adjustment uncollectibles, Ordinary activity & MI		<u>\$ (55,675)</u>	

## ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER

Docket No. WS-01303A-09-0343

Test Year Ended December 31, 2008

## RECONCILIATION OF SCHEDULE C-1, CUSTOMER ACCOUNTING TO SUPPORTING WORK PAPER FORMS DISTRIBUTED TO DISTRICTS

Note: CA means Customer Accounting, not California

Line No.		[A] AZ Corporate Total 12/31/2008 Recorded	[B] Sun City WW Corp Allocation 12/31/2008 Actual	[C] Sun City West WW Corp Allocation 12/31/2008 Actual	[D] Agua Fria WW Corp Allocation 12/31/2008 Actual	[E] Anthem WW Corp Allocation 12/31/2008 Actual	[F] Anthem/AF comb Corp Allocation 12/31/2008 Actual
1	4 Factor Allocation Percentages used:		7.54%	6.38%	6.57%	5.79%	
2	P18 Customer Accounting	\$ 46,423	\$ 3,503	\$ 2,964	\$ 3,049	\$ 2,687	\$ 5,735
3		\$ 1,152,299	\$ 86,939	\$ 73,565	\$ 75,075	\$ 66,684	\$ 142,359
4		\$ (361,154)	\$ (27,248)	\$ (23,057)	\$ (23,718)	\$ (20,900)	\$ (44,618)
5		\$ 3,018	\$ 228	\$ 193	\$ 198	\$ 175	\$ 373
6		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9		\$ 161,225	\$ 12,164	\$ 10,293	\$ 10,588	\$ 9,330	\$ 19,918
10		\$ 21,336	\$ 1,610	\$ 1,362	\$ 1,401	\$ 1,235	\$ 2,636
11		\$ 11,301	\$ 853	\$ 721	\$ 742	\$ 654	\$ 1,396
12		\$ 223,097	\$ 16,832	\$ 14,243	\$ 14,651	\$ 12,911	\$ 27,562
13		\$ 26,411	\$ 1,993	\$ 1,686	\$ 1,734	\$ 1,528	\$ 3,263
14		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15		\$ 543,710	\$ 41,022	\$ 34,711	\$ 35,707	\$ 31,465	\$ 67,172
16		\$ 682	\$ 51	\$ 44	\$ 45	\$ 39	\$ 84
17		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18		\$ 46,102	\$ 3,478	\$ 2,943	\$ 3,028	\$ 2,668	\$ 5,696
19		\$ 24,724	\$ 1,865	\$ 1,578	\$ 1,624	\$ 1,431	\$ 3,055
20		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Total	\$ 1,899,173	\$ 143,289	\$ 121,246	\$ 124,724.36	\$ 109,906.11	\$ 234,630.35
22	P18 Customer Accounting						
23	Amount Recorded Directly (Not Allocated)	\$ -	\$ 350	\$ 252	\$ -	\$ -	\$ 122
24	Total, as recalculated above.	\$ -	\$ 143,639	\$ 121,499	\$ 124,724	\$ 109,906	\$ 234,752
25	Test Year Book Results, Customer Accounting						
26	Expense, Schedule C-1	\$ -	\$ 143,639	\$ 121,498	\$ (124,724)	\$ (109,906)	\$ 234,752
27	Unreconciled Difference.						
28			\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)

## Sources:

Columns [A]-[C], lines 1-21: From Company Workpaper, 08 A of I-AZ Corp Summary w Pro Forms Distributed to Districts.xls

Columns [B], line 23: From Company Workpaper, Sun City WW AI 2008.xls

Columns [C], line 23: From Company Workpaper, Sun City West WW AI 2008.xls

Columns [C], line 23: From Company Workpaper, Sun City West WW AI 2008.xls

Columns [B] and [C], lines 26-27: Company's Application

ARIZONA-AMERICAN WATER COMPANY - SUN CITY WEST WASTEWATER  
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Surrebutial Schedule GTM-15

OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Miscellaneous	\$ -	\$ 9,501	\$ 9,501

References:

Column (A), Company Schedule C-2 p. 26

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 5- DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation & Amortization	\$ 1,238,799	\$ 64,131	\$ 1,302,930

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
2		<u>PLANT IN SERVICE:</u>	B-2 page 2		
3	351000	WWWOrganization	4,078	0.00%	-
4	352000	WW Franchises	68	0.00%	-
5	353200	WW Land & Ld Rights Coll	-	0.00%	-
6	354200	WW Struct & Imp Coll	130,873	5.00%	6,544
7	354500	WW Struct & Imp Gen	48,870	1.67%	816
8	355300	WW Power Gen Equip SPP	25,840	3.33%	860
9	355400	WW Power Gen Equip TDP	-	0.00%	-
10	360000	WW Collection Sewers Forced	765,181	2.07%	15,839
11	361100	WW Collecting Mains	13,101,343	2.04%	267,267
12	362000	WW Special Coll Struct	963,907	8.40%	80,968
13	363000	WW Service Sewer	2,641,009	2.04%	53,877
14	364000	WW Flow Measuring Devices	-	10.00%	-
15	371100	WW Pump Equip Elect	27,605	10.00%	2,761
16	380050	WW TD Equip Grit Removal	-	5.00%	-
17	380100	WW TD Equip Sed Tanks/Acc	7,615	5.00%	381
18	380600	WW TD Equip Oth Disp	5,634	5.00%	282
19	380625	WW TD Equip Gen Tmt	110,053	5.00%	5,503
20	380650	WW TD Equip Influent Lift S	19,530	5.00%	977
21	382000	WW Outfall Sewer Lines	-	5.00%	-
22	389100	WW Oth Plt & Misc Equip Int	-	4.98%	-
23	389600	WW Oth Plt & Misc Equip	-	4.98%	-
24	390000	WW Office Furniture & Equip	-	4.59%	-
25	391000	WW Trans Equipment	-	20.00%	-
26	393000	WW Tool Shop & Garage Equip	-	4.47%	-
27	395000	WW Power Operated Equip	777	5.02%	39
28	396000	WW Communication Equip	12,621	10.30%	1,300
29	397000	WW Misc Equipment	22,663	5.10%	1,156
30	398000	WW Other Tangible Equipment	-	0.00%	-
31					
32		<u>Allocated From Corp to Districts (SLM-2)</u>	B-2 page 6		
33	303600	Land & Land Rights AG	-	0.00%	-
34	304510	Struct & Imp AG Cap Lease	-	0.00%	-
35	304600	Struct & Imp Offices	-	-	-
36	304800	Struct & Imp Misc	-	-	-
37	304620	Struct & Imp Leasehold	18,874	14.28%	2,695
38	3310001	Mains	-	-	-
39	339600	Other P/E CPS	4,930	3.30%	163
40	340100	Office Furniture & Equip	110,050	4.04%	4,446
41	340200	Comp & Periph Equip	47,801	10.00%	4,780
42	340300	Computer Software	173,566	25.00%	43,392
43	340330	Computer Software Other	4,463	25.00%	1,116
44	340500	Other Office Equipment	-	-	-
45	341100	Trans Equip Lt Duty Trucks	-	-	-
46	343000	Tool Shop & Garage Equip	-	-	-
47	344000	Laboratory Equipment	-	-	-
48	345000	Power Operated Equipment	-	-	-
49	346100	Comm Equip Non-Telephone	17,760	8.25%	1,465
50	346200	Communication Equip Telephone	1,369	8.25%	113
51	346300	Communication Equip Other	468	5.35%	25
52	347000	Misc Equipment	-	-	-
53	380400	WW TD Equip Aux Eff Tmt	-	-	-
54	393000	WW Tool Shop & Garage Equip	-	-	-
55					
56		<u>North West Valley Treat Plant (NWVRTF)</u>	B-2 p 9 B-2 page 9		
57	352000	WW Franchises	939	0.00%	-
58	353200	WW Land & Ld Rights Coll	326,026	0.00%	-
59	353500	WW Land & Ld Rights Gen	14,938	0.00%	-
60	354200	WW Struct & Imp Coll	1,981,709	5.00%	99,085
61	354300	WW Struct & Imp SPP	697,148	5.00%	34,857
62	354400	WW Struct & Imp TDP	-	0.00%	-
			1,150,761	1.67%	19,218

64	355200	WW Power Gen Equip Col	5,725	3.33%	191
65	355300	WW Power Gen Equip SPP	-	3.33%	-
66	360000	WW Collection Sewers Forced	-	2.07%	-
67	361100	WW Collecting Mains	79,052	2.04%	1,613
68	362000	WW Special Coll Struct	372,845	8.40%	31,319
69	363000	WW Service Sewer	18,642	2.04%	380
70	364000	WW Flow Measuring Devices	3,959	10.00%	396
71	370000	WW Receiving Wells	-	3.33%	-
72	371100	WW Pump Equip Elect	291,311	10.00%	29,131
73	371200	WW Pump Equip Other	267	5.42%	14
74	380000	WW TD Equipment	1,516,424	5.00%	75,821
75	380050	WW TD Equip Grit Removal	793,756	5.00%	39,688
76	380100	WW TD Equip Sed Tanks/Acc	3,865,304	5.00%	193,265
77	380200	WW TD Equip Sludge/Effl Rmv	37,642	5.00%	1,882
78	380250	WW TD Equip Sludge Dig Tnk	51,518	5.00%	2,576
79	380300	WW TD Equip Sludge Dry/Fitt	4,342,083	5.00%	217,104
80	380350	WW TD Equip Sec Trmt Fitt	18,407	5.00%	920
81	380400	WW TD Equip Aux Effl Trmt	924,411	0.00%	-
82	380500	WW TD Equip Chem Trmt Plant	1,460	5.00%	73
83	380600	WW TD Equip Oth Disp	748,523	5.00%	37,426
84	380625	WW TD Equip Gen Trmt	570,206	5.00%	28,510
85	380650	WW TD Equip Influent Lift S	51,852	5.00%	2,593
86	381000	WW Plant Sewers	11,815	5.00%	591
87	382000	WW Outfall Sewer Lines	84,528	5.00%	4,226
88	389100	WW Oth Plt & Misc Equip Int	13,943	4.98%	694
89	389600	WW Oth Plt & Misc Equip	-	0.00%	-
90	390000	WW Office Furniture & Equip	121,007	4.59%	5,554
91	390200	WW Computer & Peripherals	14,510	25.00%	3,628
92	390300	WW Computer Software	45,342	25.00%	11,336
93	391000	WW Trans Equip	172,443	20.00%	34,489
94	392000	WW Stores Equip	8,114	3.91%	317
95	393000	WW Tool Shop & Garage Equip	89,445	0.00%	-
96	394000	WW Laboratory Equipment	71,064	10.00%	7,106
97	395000	WW Power Operated Equipment	9,327	5.02%	468
98	396000	WW Comm Equip	159,983	10.30%	16,478
99	397000	WW Misc Equip	50,390	5.10%	2,570
100	398000	WW Other Tangible Plant	-	0.00%	-
101		Rounding	(4)		
102					
103					
104		<b>Total Plant in Service</b>	<b>36,983,761</b>	<b>3.79%</b>	<b>1,400,284</b>
105					
106					
107		Less Non Depreciable Plant			
108	351000	WW Organization	4,078	0.00%	-
109	353200	WW Land & Ld Rights Coll	-	0.00%	-
110	355300	WW Power Gen Equip SPP	25,840	0.00%	-
	352000	WW Franchises	939	0.00%	-
	353200	WW Land & Ld Rights Coll	326,026	0.00%	-
	353500	WW Land & Ld Rights Gen	14,938	0.00%	-
111					
112		Net Depreciable Plant and Depreciation Amounts	\$ 36,611,940		\$ 1,400,284
113		Composite Depreciation Rate		3.82%	
114		Less			
115		Amortization of Regulatory CIAC at Settlement Rate			97,158
116		Amortization of CIAC at Composite Rate	\$ 5,122		\$ 196
117		Staff Recommended Depreciation Expense			\$ 1,302,930
118		Company Proposed Depreciation Expense			1,238,799
119		Staff Adjustment			\$ 64,131

<b>References:</b>	
Col A	Schedule GTM-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

OPERATING INCOME ADJUSTMENT # 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 5,661,710	\$ 5,661,710
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	11,323,420	11,323,420
4	Staff Adjusted Test Year Revenues - 2008	5,661,710	
5	Staff Recommended Revenue		7,127,382
6	Subtotal (Line 3 + Line 4) or (Line 3 + Line 5)	16,985,130	18,450,802
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	5,661,710	6,150,267
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	11,323,420	12,300,535
11	Plus: 10% of CWIP - 2008	13,454	13,454
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 9 + Line 10 - Line 11)	11,336,874	12,313,989
14	Assessment Ratio	22.0%	22.0%
15	Assessment Value (Line 12 * Line 13)	2,494,112	2,709,078
16	Composite Property Tax Rate - Obtained from ADOR	5.42%	5.42%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 135,261	
18	Company Proposed Property Tax	\$ 135,172	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 89	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 146,919
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 135,261
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 11,658
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 11,658
24	Increase in Revenue Requirement		\$ 1,465,672
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		0.79540%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 24  
Line 21: Line 19 - Line 20  
Line 23: Schedule GTM-1, Line 8

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Surrebuttal Schedule GTM-18

OPERATING INCOME ADJUSTMENT # 7 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ 52,682</u>	<u>\$ (135,914)</u>	<u>\$ (83,232)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

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Surrebuttal Schedule GTM-19

OPERATING INCOME ADJUSTMENT # 8 - REGULATORY EXPENSE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Regulatory Expense	\$ 43,794	\$ (9,406)	\$ 34,388

References:

Column (A), Company Schedule C-2, p. 16

Column (B): Testimony GTM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT # 9 - ACCEPTING RUCO ADJUSTMENTS

LINE ACCT		[A]	[B]	[C]
NO.	NO.	COMPANY	STAFF	STAFF
		PROPOSED	ADJUSTMENTS	RECOMMENDED
1	Labor - AIP Adjustment	\$ 766,759	(14,441)	\$ 752,318
2	Labor - Stock Comp Adj	752,318	(6,638)	745,680
3	Total Labor Adjustment		(21,079)	
4				
5	Management Fees - AIP Adj	\$ 789,604	(10,281)	\$ 779,323
6	Management Fees - Stock Comp Adj	779,323	(4,442)	774,881
7	Management Fees - other expenses adj	774,881	(10,878)	764,003
8	Management Fees - BD expense	764,003	(6,435)	757,568
9	Management Fees - Dues & Donations	\$ 757,568	(2,216)	\$ 755,352
	Total Mgmt Fees Adjustment		(34,252)	
	Pensions	\$ 150,285	9,646	\$ 159,931

References:

Column (A), Company Schedule  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)